

TRANSCRIPT OF
MEETING
of

STATE LANDS COMMISSION
SACRAMENTO, CALIFORNIA

March 28, 1953

PARTICIPANTS:

THE COMMISSION:

Honorable Alan Cranston, Controller, Chairman
*Honorable Glenn M. Anderson, Lieutenant Governor
Honorable Hale Champion, Director of Finance

* (Present at morning session only)

Mr. F. J. Hortig, Executive Officer

OFFICE OF THE ATTORNEY GENERAL:

Mr. Jay L. Shavelson, Deputy Attorney General

(This typewritten portion of the proceedings covers matters other than Item 19 -- Unit Agreement, Unit Operating Agreement, Exhibits, and Field Contractor Agreement, Long Beach Unit, Wilmington Oil Field, Los Angeles County - L.B.W.O. 10,155. Item 19 has been reproduced on stencils and is in mimeographed form)

I N D E X
(In accordance with Calendar Summary)

<u>ITEM CLASSIFICATION</u>	<u>ITEM ON</u> <u>CALENDAR</u>	<u>PAGE OF</u> <u>CALENDAR</u>	<u>PAGE OF</u> <u>TRANSCRIPT</u>
1. Call to order			
2. Confirmation of minutes meeting of Jan. 24, 1963			
3 PERMITS, EASEMENTS, RIGHTS- OF-WAY, NO FEE			
(a) Div. of San Francisco Bay Toll Crossings	5	1	2
4 PERMITS, EASEMENTS, LEASES, RIGHTS-OF-WAY, FEE			
(a) William & Edith Daley	8	2	2
(b) George W. Ladd	4	3	2
(c) Rancho Palos Verdes Corp. and Capital Company	1	4	2
(d) Trigood Oil Company	12	5	3
(e) Pacific Gas & Elec. Co.	6	8	3
(f) Standard Oil and Shell Oil	7	9	3
(g) Standard Oil of Calif. Western Operations Inc.	10	10	3
(h) Texaco Inc.	9	11	4
(i) Richfield Oil Corp.	11	13	4 (Deferred)
(j) Richfield Oil Corp.	13	15	4
MOTION ON CLASSIFICATION 4 except (i) -----			4
5 CITY OF LONG BEACH			
(a) Add'n No. 9 Pier A	2	16	4
6 Authorization for issuance of supplemental patent Michael Kimerer, 20 ac. school lands El Dorado County	16	18	5

continued

I N D E X
(In accordance with Calendar Summary)
continued

<u>ITEM CLASSIFICATION</u>	<u>ITEM ON CALENDAR</u>	<u>PAGE OF CALENDAR</u>	<u>PAGE OF TRANSCRIPT</u>
7 Approval revised description Parcel 13, Santa Barb. Co.	15	20	5
8 Authorization to offer proposed oil & gas lease Orange County Parcel 14	14	21	5
9 Confirmation transactions of Executive Officer:	3		6
Calif., Dept Fish & Game		25	
Shell Oil Co.		24	
Standard Oil Co. of Calif.		25	
Texaco Inc.		24	
10 Informative only:			
(a) Major Litigation	17	26	6
Motion on Number 7 under litigation -----			7
(b) Report on legislation	18	29	7
11 Further review contracts Long Beach Unit, Wilmington Oil Field	19	34	Pages 1 thru 122, mimeo- graphed form
12 Next meeting			8

I N D E X
(In accordance with calendar items)

	<u>ITEM ON CALENDAR</u>	<u>PAGE OF CALENDAR</u>	<u>PAGE OF TRANSCRIPT</u>
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17	14	21	5
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19	16	18	5
20	17	26	6
21	18	29	7
22	19	34	Pages 1-122 incl. in mimeographed form
23			
24	Next meeting		8

1 MR. CRANSTON: The meeting will please come to
2 order. First item is confirmation of the minutes of meeting
3 of January 24, 1963.

4 GOV. ANDERSON: Move.

5 MR. CHAMPION: Second.

6 MR. CRANSTON: Approval moved, seconded, so
7 ordered. Is there anyone here on any item other than the
8 Long Beach Wilmington Oil matter, which they would like
9 heard briefly before we take that up? We will take that
10 up first, so the many people attending in connection with
11 that matter do not have to sit through the rest of the
12 calendar. (No response) If there is no other matter before
13 us, we will not proceed in the normal manner, but will pro-
14 ceed to take up the oil matter.

15 (Item 19 -- Unit Agreement, Unit Operating
16 Agreement, Exhibits, and Field Contractor
17 Agreement, Long Beach Unit, Wilmington Oil
18 Field, Los Angeles County -- L.B.W.O.10,155 --
19 was then taken up by the Commission and the
20 proceedings in connection therewith have been
21 reproduced in mimeographed form)

22 *****

23 MR. CRANSTON: If that completes this item on
24 the agenda (referring to Item 19, above) we will now revert
25 to the regular agenda.

26 Item 3 -- Permits, easements, and rights-of-way

1 to be granted to public and other agencies at no fee,
2 pursuant to statute:

3 Applicant (a) -- Division of San Francisco Bay
4 Toll Crossings -- Right-of-way over submerged lands of San
5 Francisco Bay, San Mateo and Alameda counties, for widening of
6 bridge, in accordance with map entitled "San Mateo-Hayward
7 Bridge" numbered M-5001-1; replacing Easement P.R.C.1829.9.

8 MR. CHAMPION: Is this the agreement that was
9 reached on this esthetic problem?

10 MR. HORTIG: No. The esthetic problem related to
11 a power transmission line that paralleled this. This is an
12 easement for a new crossing to be built by the Division of
13 San Francisco Bay Toll Crossings, paralleling the existing.

14 MR. CRANSTON: Approval is moved, seconded, and
15 without objection, so ordered.

16 Item Classification 4 -- Permits, easements, leases,
17 and rights-of-way pursuant to statutes and established rental
18 policies of the Commission:

19 Applicant (a) William Daley and Edith Daley --
20 10-year lease, Lot 17, Fish Canyon Cabin Site, Los Angeles
21 County, annual rental \$65;

22 Applicant (b) George W. Ladd -- one-year renewal
23 of Lease P.R.C. 400.1, 2.34 acres submerged lands of San
24 Joaquin River, San Joaquin County, for floating boat sheds
25 and marine ways, total rental \$280.80;

26 (c) Rancho Palos Verdes Corporation and Capital

1 Company, tenants in common -- Assignment to Palos Verdes
2 Properties, a partnership composed of Rancho Palos Verdes
3 Corporation, and Capital Company, of Lease P.R.C. 322.1,
4 covering tide and submerged lands of Portuguese Bend, Los
5 Angeles County;

6 Item (d) Trigood Oil Company -- Assignment to
7 American Metal Climax, Inc. of interest in Oil and Gas Lease
8 P.R.C. 145.1, Rincon Oil Field, Ventura County, covering oil
9 and gas zones below a depth of 5500 feet underlying lands
10 described in Exhibit A;

11 Item (e) Pacific Gas and Electric Company -- Permit
12 to dredge approximately 2,360 cubic yards fill material from
13 submerged lands of San Joaquin River, adjacent to P.G.& E.'s
14 Antioch Power Plant, Contra Costa County, for purpose of
15 creating a water-intake channel, at royalty of three cents
16 per cubic yard;

17 Item (f) Standard Oil Company of California and
18 Shell Oil Company -- Deferment through October 13, 1963, of
19 drilling requirements, Oil and Gas Lease P.R.C. 2198.1,
20 3840 acres tide and submerged lands offshore Santa Barbara
21 County -- to permit further review and evaluation of geo-
22 logical and geophysical data;

23 Item (g) Standard Oil Company of California, Western
24 Operations, Inc. -- Deferment through Oct. 4, 1963 of drill-
25 ing requirements, Oil and Gas Lease P.R.C. 2199.1, 3840 acres
26 tide and submerged lands offshore Santa Barbara County;

1 (h) Texaco Inc. -- Deferment through October 2,
2 1963 of drilling requirements, Oil and Gas Lease P.R.C.
3 2206.1, 3840 acres tide and submerged lands offshore Santa
4 Barbara County;

5 (i) Richfield Oil

6 MR. HORTIG: Mr. Chairman, as to item (i), the
7 applicant has requested that consideration of this item be
8 deferred and the staff so recommends.

9 MR. CRANSTON: Item (i) will go over.

10 Item (j) Richfield Oil Corporation -- Amendment of
11 legal description of Easement P.R.C. 2932.1, 11.685 acres
12 tide and submerged lands, Santa Barbara Channel, Santa Bar-
13 bara County, to conform with position of pipeline as in-
14 stalled.

15 MR. CHAMPION: Moved.

16 MR. CRANSTON: Approval is moved on all items
17 except (i), seconded, and so ordered.

18 Item 5 -- City of Long Beach -- Approvals required
19 pursuant to Chapter 29/56, 1st E.S. Project (a) Addition
20 No. 9, Pier A, Berths 6 and 7, Remedial Work (1st phase) --
21 Estimated subproject expenditure from March 29, 1963 to
22 termination of \$70,000, 100% estimated as subsidence costs.

23 MR. CHAMPION: Move approval.

24 MR. CRANSTON: Approval is moved, seconded, made
25 unanimously.

26 Item 6 -- Authorization for Executive Officer to

1 proceed with issuance of a supplemental patent, in the name
2 of the original applicant, Michael Kimerer, subject to
3 reservation of all minerals, for purpose of perfecting title
4 to twenty acres school lands, El Dorado County.

5 MR. CHAMPION: Move approval.

6 MR. CRANSTON: Approval is moved, seconded, so
7 ordered.

8 ITEM 7 -- Approval of revised description for
9 Parcel 13 proposed oil and gas lease, Santa Barbara County,
10 increasing parcel from 500 to 505.36 acres.

11 MR. HORTIG: Mr. Chairman, explanation is in order
12 that by approval of the revised description the Commission
13 will authorize a legal description for lease offer which
14 will conform with the legal description that has already
15 been published.

16 MR. CHAMPION: Moved.

17 MR. CRANSTON: Approval is moved, seconded, made
18 unanimously.

19 Item 8 -- Authorization for Executive Officer to
20 offer proposed oil and gas lease, Orange County -- Parcel 14.

21 MR. HORTIG: This, Mr. Chairman, will be the first
22 in the sequence of lease offering series of parcels approved
23 by the Commission for offer in Orange County.

24 MR. CHAMPION: Move approval.

25 MR. CRANSTON: Approval is moved and seconded, so
26 ordered.

1 MR. CRANSTON: Item 9 -- Confirmation of trans-
2 actions consummated by the Executive Officer pursuant to
3 authority confirmed by the Commission at its meeting on
4 October 5, 1959.

5 MR. CHAMPION: Move confirmation.

6 MR. CRANSTON: Confirmation is moved, seconded, so
7 ordered.

8 Item 10 -- Informative only, no Commission action
9 required. (a) Report on status of major litigation.

10 MR. HORTIG: Mr. Chairman, in addition to the
11 written report on the status of major litigation, I must re-
12 port to the Commission that on March 14, 1963 the United
13 States Solicitor General requested the Supreme Court to
14 determine the location along the California coast of a three-
15 mile limit, which the United States contends divides Cali-
16 fornia and United States jurisdiction over lands offshore of
17 the mainland. The request from the Supreme Court is in the
18 form of a motion for leave to file supplemental complaint on
19 original complaint.

20 MR. CRANSTON: Section 6210 of the Public Resources
21 Code of the State of California provides: "The Commission
22 shall represent the State in all contests between it and the
23 United States in relation to public lands."

24 Therefore, in consideration of the action under-
25 taken by the United States Solicitor General, I wish to have
26 it recorded that it is the intent of the State Lands Commission

1 to proceed fully with the defense of the interests of the
2 State in accordance with its statutory authority. The
3 Executive Officer is authorized and directed to undertake
4 full implementation of this defense of California's interests.

5 Would you like a motion to that effect?

6 MR. SHAVELSON: Yes, Mr. Chairman. That might be
7 a good thought.

8 MR. CHAMPION: I will move this.

9 MR. CRANSTON: Mr. Champion moves to the effect of
10 what I have just stated and I second the motion, and it is
11 so ordered.

12 MR. SHAVELSON: Before final budgetary arrangements
13 are made for this defense, there are possible certain minor
14 expenditures and the Attorney General's Office is fresh out
15 of money, and we are going to solicit cooperation from the
16 State Lands Commission in that regard concerning retaining
17 our services in this case.

18 MR. CHAMPION: My guess is that the State Lands
19 Commission will immediately say it is fresh out of money and
20 refer it to the Department of Finance. We will be glad to
21 take it under consideration.

22 MR. CRANSTON: Anything else on litigation or
23 legislation?

24 MR. HORTIG: No.

25 MR. CRANSTON: Item 19 -- We have done that
26 already.

1 Confirmation of date, time and place of next meet-
2 ing -- It will be Thursday, April 25, 1963, 10:00 a.m. in
3 Sacramento, and possibly run again in the afternoon.

4 If there is nothing further, we stand recessed.
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7 ADJOURNED 2:48 P.M.
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CERTIFICATE OF REPORTER

I, LOUISE H. LILLICO, reporter for the Office of Administrative Procedure, hereby certify that the foregoing eight pages, together with pages one through one hundred-twenty-two covering Item 19 (which have been reproduced separately on stencils and placed in mimeographed form), are a full, true, and correct transcript of the shorthand notes taken by me in the meeting of the STATE LANDS COMMISSION at Sacramento, California on March 28, 1963.

Dated: April 10, 1963.

Louise H. Lillico

STATE LANDS COMMISSION

SACRAMENTO, CALIFORNIA

March 28, 1963

CALENDAR ITEM 19

UNIT AGREEMENT, UNIT OPERATING AGREEMENT, EXHIBITS, AND FIELD
CONTRACTOR AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD,
LOS ANGELES COUNTY, L.B.W.O. 10,155

MR. CRANSTON: If there is no other matter before us, we will not proceed in the normal manner, but will proceed to take up the oil matter. Frank, do you have anything to say to start it? I believe you have certain matters that have been given to you to be read into the record.

MR. HORTIG: Yes, Mr. Chairman. If I might suggest that I read the prepared agenda item, which I believe would be the most expeditious presentation of a summary of the status of the matter being heard by this Commission, and then present the data which have been submitted for reading into the record, this would then set the entire scene for the further discussion and amplification which both the City of Long Beach and probably industry desire to present to the Commission for the record.

With approval of that program, I will proceed to read:

At the State Lands Commission meeting of February 28, 1963, the documents relating to the Long Beach Unit of the Wilmington Oil Field were considered. Several requests for related technical and legal information were made by the Chairman of the Special Subcommittee of the Senate Research Committee, and Senator Dolwig, who were present at the meeting.

In answer to these specific requests, the staff has submitted the following information to Senator Virgil O'Sullivan, Chairman of the Special Subcommittee of the Senate Research Committee, on the dates noted:

1. A complete history and royalty analysis of State Oil and Gas Lease P.R.C. 186.1. Forwarded March 18, 1963.
2. A legal memorandum prepared by the Office of the Attorney General dated March 22, 1963, relative to ad valorem tax consequences of the proposed Field Contractor Agreement,

1 Long Beach Unit. Forwarded March 25, 1963.

2 The following information was furnished Senator Richard J.
3 Dolwig on the dates noted:

- 4 1. A legal memorandum prepared by the Office of the Attorney
5 General dated March 22, 1963 relative to the seaward
6 boundaries for Tracts Nos. 1 and 2 of the proposed Long
7 Beach Unit. Forwarded March 25, 1963.
8 2. A review of the revenues and expenditures related to the
9 City of Long Beach Tideland Trust operations for the
10 period February 1, 1956 through December 31, 1962, in-
11 cluding estimated costs for future projects. Forwarded
12 March 25, 1963.

13 At the meeting of February 28, 1963, Mr. D. E. Clark, repre-
14 senting Shell Oil Company, apprised the Commission of his
15 company's opposition to, or questioning of, certain provi-
16 sions of the Unit Agreement as follows:

- 17 A. It is their belief that Article 6.3, which provides for
18 additions of public lands to the Unit by resolution of the
19 City Council of the City of Long Beach could deprive the
20 City and the State of substantial future income and would
21 favor certain operators over others.

22 In reply to the above contention, the Office of the
23 Attorney General has issued a memorandum to the State
24 Lands Commission dated March 22, 1963, wherein they state:

25 "It is our opinion that under the present proposals, the
26 State Lands Commission would retain the power to approve
27 the terms of any such agreement for the joinder of addi-
28 tional public lands in the Unit, and thus to prevent their
29 inclusion upon terms unfavorable to the State. This
30 would be true regardless of any finding by the City Coun-
31 cil as to subsidence danger."

- 32 B. The question of the legality of Article 16 of the Unit
33 Agreement relating to relief of Unit obligations and sur-
34 render of Working Interests, in two respects:

35 1. As applied to the City, Mr. Clark questioned whether
36 these provisions might not involve a violation of the
37 prohibition against alienation contained in the legisla-
38 tive grants.

39 2. Mr. Clark also questioned the validity of the option
40 right contained in Article 16 (whereby continuing partici-
41 pants may elect to acquire the interest of a withdrawing
42 participant) under the rule against perpetuities.

43 In answer to the above question, the Office of the
44 Attorney General by memorandum dated March 22, 1963,
45 states that (quoting in part):

46 "It is our opinion that Article 16 may not be construed
47 so as to allow the City to convey any interest in Tract
48 No. 1 in violation of trust conditions."

1 and also that:

2 "It is our opinion that the 'option provision' in Section
3 16.1 does not violate the rule against perpetuities, al-
4 though it may be operable for a period in excess of a life
in being plus twenty-one years."

5 Discussions at the meeting of February 28, 1963, which fol-
6 lowed a presentation made by Mr. L. E. Scott, representing
7 Pauley Petroleum, regarding monopolistic control of Cali-
8 fornia production if Tract No. 1 is committed to contract in
9 one parcel, have warranted further review. Accordingly,
10 representatives from the Office of the Attorney General, the
11 City of Long Beach, and the State Lands Commission conferred
12 with the Chief of the Los Angeles office of the Anti-Trust
13 Division, United States Department of Justice, to explain the
14 essential factors relative to the proposed Long Beach Unit
contracts. Subsequently, the Executive Officer invited the
15 Chief of the Los Angeles Anti-Trust Division to attend the
16 March 28, 1963 State Lands Commission meeting (this meeting
17 today) to present his comments and suggestions. However,
18 the Assistant Attorney General, Anti-Trust Division, U.S.
19 Department of Justice, Washington, D.C., has by letters sub-
20 mitted comments and procedures which the staff suggests be
21 read into the record, since these are considered to be of
mutual interest to those in attendance.

22 Further staff reviews of the pertinent factors contained in
23 the Unit documentation and reviews with industry of the
24 primary issues are continuing.

25 MR. HORTIG continuing: I should bring to the attention of
26 the Commission at this point (and copies are attached as the last
27 page of your supplemental Long Beach agenda item) the pendency of
28 Senate Resolution Number 100 by Senators O'Sullivan, Arnold, Murdy,
29 and Teale, in which it is proposed that the Senate resolve:

30 "That the State Lands Commission be requested to withhold
31 its determinations with respect to all of the documents
relating to a bid offering by the City of Long Beach for
the extraction of oil, gas and hydrocarbons from the East
Wilmington Oilfield; and, further,

32 That the State Lands Commission be encouraged to continue
33 public hearings and reviews by its staff relating to such
34 existing or proposed documents, recognizing the value of
35 such hearings and review to insure maximum participation by
36 all those who may be concerned and who may aid in a final
37 determination of the most appropriate approach for such
38 extraction which will be to the maximum equitable benefit
39 to the State, the City of Long Beach and the industry; and,
40 further,

41 That the Senate Rules Committee assign this resolution for
study to the General Research Committee of the Senate, direct-
ing such committee to make a thorough physical, legal and
economic appraisal of the proposed oil, gas and hydrocarbon

1 "extractions, as expeditiously as possible, and to report
2 its recommendations thereon to the Senate at this session
of the Legislature."

3 MR. HORTIG continuing: Returning to the subject matter
4 of the letter from the Anti-Trust Division, copy of which is at-
5 tached to the Commissioners' calendars following the last page of
6 "Memorandum on Attorney General's Opinion":

7 " UNITED STATES DEPARTMENT OF JUSTICE
8 WASHINGTON, D.C.

9 March 19, 1963

10 Mr. F. J. Hortig, Executive Officer
11 State Lands Commission
12 State Lands Division
13 State of California
14 State Building
15 Los Angeles 12, California

16 Dear Mr. Hortig:

17 This is in reply to your letter of March 15, 1963 to
18 Stanley E. Disney, Chief of the Los Angeles Office of the
19 Antitrust Division, which invites comments by the Antitrust
20 Division concerning the proposed lease of certain reserves
21 in the Wilmington oil field by the City of Long Beach and
22 the State of California.

23 I understand that Messrs. Disney and Somerville have
24 discussed this proposed lease with representatives of your
25 office and that during said conference two matters were
26 raised. First, can the Antitrust Division state whether
27 there is any present or future danger that the operation
28 of the lease in accordance with its terms, by the success-
29 ful bidders, may involve any violation of the antitrust
30 laws, and second, can any provision be made to insure that
31 some part of the crude oil produced from the reserve is
made available for purchase by small companies who are
not parties to the lease.

With reference to the first problem, the Antitrust
Division has announced publicly a policy of studying
proposed plans of operation which are submitted to it, and
of announcing whether it considered such plans to be legal
or illegal within the framework of the antitrust laws and
further of obligating itself, if later developments after
the plan has gone into operation make it appear that it is
illegal, to challenge this legality solely by civil process.
The procedure for seeking such a determination by the Anti-
trust Division is outlined in a bulletin of the Department
of Justice, a copy of which is enclosed. *

The second problem, namely that of providing some part
of the crude for smaller companies, is completely independ-
ent from the first problem and a solution to the one problem
does not automatically solve the other. If a reasonable

DEPARTMENT OF JUSTICE

November 1, 1962

THE ANTITRUST CLEARANCE AND RELEASE PROCEDURE

The Department of Justice is not authorized to give advisory opinions to private parties. However, it has a program which has been in operation for a number of years, that permits the submission of certain matters to the Antitrust Division for "release" or "clearance" letters. It is desirable that this procedure be fully understood in order that both its availability and advantages, and its limitations, may be known by those who are concerned with antitrust problems. This is accordingly a statement of the program for the guidance of those who may wish to take advantage of it and of the staff engaged in its operation.

Antitrust "release" letters permit an advance review of business plans for proposed operations to ascertain whether they involve risk of criminal prosecution if adopted. There is no requirement that such plans or proposed operations be submitted to the Department of Justice and any such submission is a purely voluntary undertaking to secure the advantage of an advance review. The procedure involved is relatively simple and informal. The elements of the procedure are these:

1. A request for a release or clearance letter must be submitted in writing to the Department of Justice.

2. The submission must contain a full disclosure regarding a specific business proposal. If additional facts or data concerning the proposal are sought by the Antitrust Division, the information sought must be supplied upon request.

3. The submission must relate to a plan or program that is purely prospective and not operative. No consideration will be given to a request for an expression as to operations which are being conducted at the time.

4. The facts and plans disclosed must affirmatively show that the plan and the proposed operations will be fully consistent with the antitrust laws.

5. In the event of such a submission and showing, a release letter will be issued waiving the Government's right to institute criminal proceedings against the parties involved based upon their putting into effect the plan or proposal submitted.

6. In the event of a submission which does not affirmatively show that the plan and proposed operations will be fully consistent with the antitrust laws, the Government may refuse to take a position or make any comment upon the proposal; or the Government may advise the parties that the proposal appears to be contrary to the antitrust laws, if that is the case.

7. The Government in any event reserves the right to institute civil proceedings if it appears that the legality of the activities or program in question should be tested.

8. If the plan in actual operation or the activities engaged in go beyond the statements set forth in the submission made to the Department of Justice, the Government reserves the right to proceed either civilly or criminally.

1 9. The submission of a request for a release or clear-
2 ance letter does not prejudice the position or any right of the
3 party making the submission. The submission may be withdrawn
4 prior to the issuance of a letter. An unfavorable opinion by
 the Department of Justice is not binding, and does not legally
 preclude the proposed action if the party making the submission
 is prepared to defend the action in court.

5 10. The submission of a request for a release or clear-
6 ance letter does not by itself create any immunity from prosecu-
7 tion, and such submission does not preclude the Government from
8 taking any action that may be appropriate upon the basis of
9 facts disclosed. Release and clearance commitments are given
 only in formal written communications. Such commitments are
 never given and are not authorized to be made except in writing
 over the signature of a responsible official of the Department
 of Justice.

10 The release letter is sometimes known as a "railroad
11 release". This derives from the case against the Association of
12 American Railroads in 1939 based upon agreements among the rail-
13 roads to refuse to cooperate and refuse to establish joint and
14 through fares for passengers and rates for freight with motor
15 carriers. The Department of Justice stated that it was proceed-
 ing civilly and not criminally because the agreements had been
 voluntarily disclosed to the Department and had been continued
 with the knowledge of the Department, and the defendants had co-
 operated with the Department by providing information regarding
 the situation.

16 Although the Government's commitment under the release
17 program is limited to a waiver of its right to proceed in a
18 criminal case, as a practical matter such a letter will seldom,
19 if ever, be issued if the staff of the Antitrust Division be-
 lieves that either a civil or a criminal proceeding should be
 instituted on the basis of the proposal submitted.

20 The merger clearance program is substantially similar
21 to the release program. It differs chiefly in the nature of the
22 commitment, since legal actions against mergers are, except in
23 the most extraordinary cases, civil rather than criminal. Under
24 the merger clearance program the submission and disclosure re-
25 quired is the same as under the release program mentioned above.
 Where the Antitrust Division finds that a proposed merger does
 not raise serious questions under the antitrust laws, it may is-
 sue a "clearance letter" stating that the Department does not
 intend to take legal action against the merger if consummated,
 but that it reserves the right to institute action later if sub-
 sequent developments or operations involve antitrust violations.

26 The Department of Justice cannot answer abstract or
27 hypothetical questions for private parties, but it does seek by
28 the release and clearance program to give businessmen as much
29 assurance as possible under the antitrust laws and to minimize
 the inevitable area of uncertainty that is involved in the
 application of all law.

30 LEE LOEVINGER
31 Assistant Attorney General
 Antitrust Division, Department of Justice

1 "amount of the crude were made available to the smaller
2 independent companies, it would enable them to afford a
3 greater degree of competition to the company or companies
4 which were the successful bidders than otherwise. I under-
5 stand that at the conference of Mr. Somerville and Mr. Disney
6 with representatives of your office, they suggested that one-
7 eighth of the total recovery might be made available to re-
8 finers or oil distributors who meet the definition of 'small
9 businesses' and who were independent insofar as control by
10 any major oil company is concerned. I believe that the sug-
11 gression which they made merits your consideration and recom-
12 mend that the proposal be adopted if possible.

13 Mr. Disney will not be able to attend the meeting of the
14 State Lands Commission on March 28, 1963 in Sacramento, Cali-
15 fornia, but please be assured that this office and Mr. Disney's
16 office stand ready at any time to confer with you or repre-
17 sentatives concerning the proposed oil lease insofar as it
18 may involve the application of the federal antitrust laws to
19 the private parties desirous of bidding on the lease.

20 Sincerely yours,

21 /s/ Lee Loevinger
22 Assistant Attorney General
23 Antitrust Division "

24 MR. HORTIG continuing: Mr. Chairman, we have also re-
25 ceived the following letters, with request that they be written
26 into the record, the first of which was received on March 20th,
27 addressed to the State Lands Commission, from Pauley Petroleum Inc.,
28 signed by Mr. L. E. Scott, and states:

29 "Gentlemen:

30 I am in receipt of the transcript of the above cap-
31 tioned hearing and would like to make two corrections
thereto:

32 Line 21, page 117 - The sentence reads: 'I believe
33 forty-eight million dollars were paid in a two-day period.'
34 It should read: 'I believe four hundred twenty-eight mil-
35 lion dollars were paid in a two-day period.'

36 Line 25, page 119 - The figure 'six million barrels
37 of oil' should read '1.6 billion barrels of oil.'

38 It is requested that these changes be read into the
39 record.

40 Yours very truly,

41 L. E. Scott "

42 From Signal Oil and Gas Company, addressed to the
43 Chairman:

1 "Dear Sir:

2 This letter will supplement and clarify our letter
3 to you dated February 25, 1963, regarding subject documents.
4 (The subject documents being the proposed Unit Agreement,
5 Unit Operating Agreement, and Field Contractor Agreement,
6 Long Beach Unit, Wilmington Oil Field, California)

7 It is our intention to execute the proposed Unit
8 Agreement and Unit Operating Agreement so as to commit our
9 oil and gas leases in the Townlot Area to the proposed
10 Long Beach Unit, Wilmington Oil Field, California.

11 Very truly yours,

12 SIGNAL OIL AND GAS COMPANY

13 By James K. Wootan, Vice President"

14 Letter of March 27, 1963, addressed to the Chairman
15 from Standard Oil Company of California, Western Operations, Inc.:

16 "Dear Sir:

17 We advised you in our letter of February 27, 1963, in
18 brief, that:

19 1. We held oil and gas interests in the Townlot Area
20 within the proposed Long Beach Unit Area on about 147 acres,
21 or about 8 per cent of the acreage in the Townlot Area.

22 2. We are prepared to sign the proposed Unit Agreement
23 and Unit Operating Agreement if they are approved by your
24 Commission.

25 3. We find nothing in the proposed Field Contractor
26 Agreement that would prevent this company from bidding if
27 it is offered for bid in the form submitted to your Commis-
28 sion.

29 Regarding these points we should like to add that:

30 1. Since our last letter we have made a commitment to
31 acquire additional oil and gas interests in the Townlot
Area aggregating approximately 170 acres. This acquisition
brings our total acreage to approximately 317 acres, or
about 16 per cent of the acreage in the Townlot Area.

2. If the proposed Unit Agreement and Unit Operating
Agreement are approved by your Commission, we are willing
to sign them before the City of Long Beach invites bids on
the proposed Field Contractor Agreement and will do so if
requested by the City.

3. If the Field Contractor Agreement is offered for
bid in the form submitted to you, our present plan is to
submit a joint bid on this agreement with certain other
companies. In the event our group is the successful bidder,
Standard's interest in the Field Contractor Agreement will
not be more than 50 per cent and will probably be less.

Very truly yours,

(signed) H. G. Vesper

"

1 Letter of March 27, 1963 from Richfield Oil Corporation
2 addressed to the Commission, attention of the Chairman:

3 "Gentlemen:

4 Please refer to our letter to the Commission dated
5 February 26, 1963 relating to "Unit Agreement, Unit Operat-
6 ing Agreement, Exhibits, and Field Contractor Agreement,
7 Long Beach Unit, Wilmington Oil Field, Los Angeles County --
8 L.B.W.O. 10,155", which was Item 28 on the calendar for
9 the meeting of the Commission held February 28th last.

10 In that letter we stated that we hold oil and gas
11 leases on 1,015 acres, or approximately 53%, of the
12 'Participating Townlot Area,' as defined in the Unit docu-
13 ments above referred to; that we participated in the nego-
14 tiation with the City and other parties holding leases in
15 the Townlot Area of the drafts of unit agreement, unit
16 operating agreement and exhibits thereto, in the forms
17 thereof submitted to the Commission; and we stated without
18 condition or equivocation that we are willing to commit all
19 oil and gas leases that we hold in the 'Participating Town-
20 lot Area' to a unit so constituted.

21 In spite of the commitment contained in our letter
22 which was read into the record at the hearing on February
23 28th one witness, Mr. L. E. Scott, representing Pauley
24 Petroleum, Inc., subsequently raised the question: 'Does
25 the onshore operator have a veto of bids on Tract Number 1
26 by refusing to commit onshore parcels to the Unit....?'
27 (Page 118 of the transcript of the February 28th hearing.)
28 Another witness, Mr. Durland Clark, representing Shell Oil
29 Company, subsequent to the reading of our letter into the
30 record, said: 'We must have the advance written assurance
31 from those companies holding Town Lot leases that they will
commit their lands to the Unit irrespective of whether any
one or more of them qualifies as a successful bidder. Other-
wise, they hold an absolute veto power on legitimate bidders,
a matter we must assume escaped the attention of the draft-
ers of this provision.' (Page 138 of the transcript of the
February 28 hearing).

Mr. Scott's question and Mr. Clark's statement disre-
gard the clear language of our letter and are completely
unjustified. We are willing to commit all oil and gas
leases that we hold in the Participating Townlot Area to a
unit constituted by the unit agreement, unit operating agree-
ment, and exhibits in the form thereof, respectively, sub-
mitted to the Commission at its meeting on February 28th
last, regardless of who may be the successful bidder for the
Field Contractor Agreement covering the tide and submerged
lands held in trust by the City of Long Beach and referred
to as Tract No. 1 in the above mentioned form of unit
agreement.

The foregoing is the position of Richfield, and we be-
lieve that it is implicit in the situation that it must be
the position of every landowner or lessee in the Participat-
ing Townlot Area. Far from having a 'veto power' of any
kind, there is no way any owner or lessee in such area can

1 "develop his property for oil and gas except by joining a
2 unit which also embraces the tide and submerged lands be-
3 longing to the State and City.

4 It should be borne in mind, however, that the State and
5 City are not forming a unit plan which will include the
6 Townlot Area merely to benefit the landowners and lessees
7 in that area. The unit is being formed because the princi-
8 pal oil and gas reservoir in the East Wilmington Field,
9 namely, the Ranger Zone, underlies the Participating Townlot
10 Area (which includes the downtown business section of Long
11 Beach east of Pine Avenue) as well as the tide and submerged
12 lands. The two areas have a common system of reservoir
13 pressure. Wells drilled into tide and submerged lands would
14 eventually lower the reservoir pressure underlying the down-
15 town area of Long Beach, and, as experience in that city
16 has demonstrated, could well result in subsidence, -- the
17 sinking of the surface of the land to a degree which would
18 result in danger to life and in enormous damage to extremely
19 valuable properties.

20 Obviously, the best solution for all interested parties
21 is to have a unit plan under which all wells can be drilled
22 from offshore islands, and which will permit the maintenance
23 of underground pressure in the entire reservoir, both off-
24 shore and upland. Under these circumstances no Townlot Area
25 interest could afford to stay out of such a unit, no matter
26 who operates the tide and submerged lands for the State and
27 City. This is why all oil companies which had oil and gas
28 leases in the Participating Townlot Area were glad to parti-
29 cipate in the negotiations of the unit documents.

30 We are willing to commit our oil and gas leases in the
31 Participating Townlot Area in the manner provided in, and
subject to all the provisions of, Article 13 of the form of
Unit Agreement which has been submitted to the Commission
for approval. We will actually execute the unit documents
promptly after the approval by the Commission of the docu-
ments in the form thereof now submitted to the Commission
and after the approval by the Commission of a form of Field
Contractor Agreement, and we will deposit such executed
agreements in escrow under an appropriate escrow agreement
with the City and State which will provide that the executed
agreements shall become effective under and subject to the
provisions of Section 13.3 of the Unit Agreement in the form
thereof now before the Commission.

We will appreciate it if you will have this letter read
into the record at the meeting of the Commission to be held
on March 28, 1963.

Respectfully submitted,

RICHFIELD OIL CORPORATION

By R. W. Ragland, Vice President "

MR. CRANSTON: Frank, do you have a tabulation of who
has stated that they favor the general plan and who has stated

1 they oppose it? Who is of record at this point?

2 MR. HORTIG: No, sir, I do not have it before me. I
3 believe we could approximate it. We have letters or statements
4 of approval from Richfield Oil Corporation; Standard Oil Company
5 of California, Western Operations, Inc.; Signal Oil and Gas Com-
6 pany; telegram of approval from Jade Oil Company; and letter of
7 approval from the Long Beach Unified School District.

8 The letters of objection have been received, and state-
9 ments of objection, from Shell Oil Company, from Pauley Petroleum,
10 and Texaco Inc.

11 I believe that is a fairly complete resume of both
12 sides of the documentation, Mr. Chairman.

13 MR. CRANSTON: I would like to welcome Senator
14 O'Sullivan to our deliberations here. I apologize for our ar-
15 rangements and that you cannot sit with us, which is because we
16 cannot meet in the Capitol Building due to the fact of the Senate
17 and Assembly meetings; but I hope you and the other Senators or
18 Assemblymen will consider yourself part of the meeting and make
19 whatever comments you wish as we go along. We will be happy to
20 hear from you.

21 I think it would be appropriate to hear from Jay
22 Shavelson of the Attorney General's Office at this time, and hear
23 what he has to report.

24 MR. SHAVELSON: Thank you, Mr. Chairman. Our office has
25 put in many months of effort on this project, fully realizing its
26 importance to the State and to the City of Long Beach. Through-
27 out our participation, of course, I think it goes without saying
28 that we have never attempted to influence policy decisions, but
29 simply to see that the documentation that was presented to the
30 Commission was legally sufficient -- whether it complied with
31 applicable statutes and to the extent possible that it said what

1 it meant to say. Now, our efforts, as you know, culminated in a
2 sixty-page legal memorandum that has been in the hands of the Com-
3 mission since January 25, 1963, and in the course of that memoran-
4 dum we could not, of course, deal with every possible legal ques-
5 tion that might arise under these agreements. I think that would
6 maybe take thousands of pages. But we did try to answer all the
7 questions that had to our knowledge been raised by members of
8 industry at that time and which were suggested by the State Lands
9 Division staff, and which we ourselves thought were pertinent to
10 the particular issues.

11 At the last meeting of the State Lands Commission, a
12 number of additional legal questions arose and we have attempted
13 to deal with those as well in supplementary memoranda which were
14 made available to the Commission and to the interested legislators.
15 Since they have been available, we won't attempt in detail to go
16 into our reasoning, but I would like to state briefly the ques-
17 tions that were discussed and our conclusions.

18 The first question that we discussed was a question
19 raised by Senator Dolwig as to whether or not the seaward bound-
20 aries of the original unit and participating areas might encroach
21 upon the claims of the United States under the terms of the Sub-
22 merged Lands Act and Outer Continental Shelf Lands Act of 1953.
23 The original participating area is described in the exhibits to
24 the Unit Agreement and its seaward boundary is a metes and bounds
25 description that is well within the minimum claims of the State of
26 California, even if all of the contentions of the United States
27 were ultimately sustained -- which, incidentally, we hope they
28 will not be. The seaward boundaries of the original unit area
29 are in terms of the southerly boundary of the City of Long Beach
30 and that line, again, is within the minimum claims of the State of
31 California, with certain margins of safety provided by the fact

1 that the State's ownership and the City's ownership under the
2 Submerged Lands Act are measured from the low tide line rather
3 than the high tide line; and, furthermore, we fully anticipate
4 that the Federal rule regarding artificial accretions will be
5 applicable rather than the State law. So we don't think that
6 raises a serious question concerning the Unit Agreement.

7 Another question which we have discussed is whether the
8 Field Contractor's interest will be subject to ad valorem taxa-
9 tion and, if so, what will be the basis of valuation. In response
10 to this question, we met with various members of the County Assess-
11 or's Office, together with the City Attorney -- Mr. Lingle of the
12 City Attorney's Office of Long Beach. After meeting with them, we
13 ascertained that they are presently working on this -- they have
14 asked the County Counsel to prepare an opinion upon a related
15 question, and that is whether an interest of an oil and gas lessee
16 in tax exempt lands will be valued without deduction of the les-
17 sor's interest. Although that opinion has not been rendered, it
18 seems at least very possible that in light of the DeLuz and
19 Texaco Company decisions that they may reach the conclusion that
20 that interest will be taxable without such a deduction; and if
21 they should do that, it is also possible that the Field Contrac-
22 tor's interest in this instant transaction will be likewise valued
23 without deduction for the interest payable to the State.

24 We have gone into this legal question. I was not auth-
25 orized to issue an opinion of the Attorney General's Office on
26 this because of the shortness of the time and the fact that it
27 does affect other State agencies and would require consultation
28 with them, and would require, I believe, the issuance of a formal
29 opinion, a formal consensus of the Attorney General's Office,
30 rather than just my own analysis.

31 However, I have written a memorandum, in which I have

1 set forth the decisions which I consider most closely analogous,
2 attempting to set forth both the similarities and the differences
3 in the present transaction; and I think it is fair to say that
4 there is at least some possibility that the Field Contractor's
5 interest may be taxable; and, number two, if it is taxable, that
6 it will be taxed in terms of the entire oil resource over the
7 thirty-five-year period in Tract Number 1, without deduction for
8 the amounts payable to the City and the State.

9 I think the important question to us is what do we want
10 to do about it and what can we do about it. I think without chang-
11 ing the essential character of the contract, if this contract is
12 ultimately held by the courts to be subject to such taxation, it
13 would be almost impossible to avoid such taxation without such a
14 drastic alternative as the City operating the field itself through
15 its own employees, or perhaps employing an oil company as an inde-
16 pendent contractor, to be compensated by means other than from
17 production from the tract.

18 No one, as far as I know, has suggested such radical
19 alternatives. Another possibility, of course, would be to shift
20 the complete burden of such a tax to the Field Contractor. That
21 is a question of policy and we don't wish to express any opinion
22 on it. Of course, it might be expected to have a very detrimental
23 effect upon any prospective bid.

24 MR. CHAMPION: Could I just ask one question at this
25 point, while you are outlining these alternatives? Is there a
26 legislative remedy?

27 MR. SHAVELSON: The problem, Mr. Champion, is that the
28 property taxation provisions are incorporated in the State Consti-
29 tution. I don't want to make a final answer to the question. I
30 think we probably could evolve a legislative solution, but we
31 might run into a problem conflicting with the State Constitution

1 because if this is a property interest and if it is to be valued
2 at its full cost, as provided by the Constitution, it might be
3 difficult to sustain a legislative modification.

4 SENATOR O'SULLIVAN: May I ask a question, Mr. Chairman?

5 MR. CRANSTON: Virgil.

6 SENATOR O'SULLIVAN: Are you involved here with the same
7 principle as any other possessory interest tax?

8 MR. SHAVELSON: Yes -- if I understand your question,
9 Senator. One thing I did not bring out -- that this Field Con-
10 tractor Agreement is drafted so as to make the Field Contractor
11 an independent contractor, to give him no interest in the lands
12 and no interest in the oil and gas until they are recovered; and
13 that is why I said to go any further to avoid the tax would
14 radically change - - I don't know how much farther we could go in
15 order to avoid the tax.

16 If I do understand the question, that is the question,
17 there is an analogous case involving the Los Angeles Flood Control
18 District lease in Los Angeles and in our memorandum we have, with-
19 out reaching any definite conclusion, shown both the similarities
20 and differences from that case. We think we are in a slightly
21 stronger position than was the company involved in that case.
22 Does that answer the question?

23 SENATOR O'SULLIVAN: Yes.

24 MR. SHAVELSON: Another matter which we went into by
25 written memorandum was the question as to whether Article 16 of
26 the Unit Agreement violated the prohibition contained in the legis-
27 lative grant against the alienation of tidelands by the City, and
28 whether that provision violated the rule against perpetuities.

29 These are very technical questions and I don't want to
30 go into them in detail. However, I would like to say I think
31 some clarification is required as to the purpose of Section 16.1

1 of the Unit Agreement. Its purpose is merely to require the
2 owners of working interests within a tract who desire to surrend-
3 er those interests to the persons entitled thereto, that is the
4 landowner, to first make those interests available to the parti-
5 cipants in the other tracts. It is not a prohibition against
6 alienation to other persons who are willing and desirous of as-
7 suming the obligations. So in that sense, it is what we would
8 call a pre-emption option, a right of first refusal -- number
9 one; and, number two, is not a restraint to alienability at all.

10 Since its purpose is to affect working interest owners
11 who do not own fee title to the lands, and since the City, of
12 course, owns fee title to Tract Number 1, Section 16.1 of the
13 agreement has no practical application to the City; and even if
14 it did by its general terms include the City and purport to al-
15 low an alienation of that interest, Section 3.5 of the Unit
16 Agreement makes it clear that no provision in the Unit Agreement
17 may be construed so as to require an alienation in violation of
18 the trust.

19 As to the rule against perpetuities, we have discussed
20 this in our memorandum and concluded by the overwhelming weight
21 of authority that there would be no violation.

22 Another question was whether the addition of addition-
23 al public lands within the Unit area could be accomplished with-
24 out the consent of the State Lands Commission. Now, it is clear,
25 of course, that under Section 6879 of the Public Resources Code
26 and under Chapter 29, where the areas are presently subject to
27 contract that these areas could not be committed to Unit opera-
28 tions without the consent of the State Lands Commission.

29 Now, for the very reason that general provisions such
30 as this might affect the future powers of the State Lands Commis-
31 sion to approve additional agreements, we drafted and the City has
accepted in principle a bilateral agreement which specifically

1 states that the Commission approval does not constitute prior
2 approval of other agreements that may be authorized by the Unit
3 Agreement and that where approval of such agreements would other-
4 wise be required, it will continue to be required. That is side
5 agreement Number 3 that is set forth as an exhibit to the prior
6 calendar item; and since the addition of public lands would re-
7 quire joinder agreement or further State approval, we think this
8 would not affect the Commission's jurisdiction in that regard.

9 I would like to refer briefly to some other matters that
10 did come up in the course of the Commission meeting on February
11 28th. The first is the statement in a letter from the Texaco
12 Company, which is set forth in page 34 of the transcript, to the
13 effect that the agreement would require the injection into the
14 reservoir, concurrently with initial development, of water -- to
15 the detriment of the reservoir.

16 Now, that is a question that the State Lands Division
17 staff and our Office, and the City Attorney and the City Engineers
18 have gone into in great detail. At pages 36 and 37 of our opin-
19 ion rendered to the Commission, we stated that we did not think
20 that that required injection prior to the time that there was
21 adequate knowledge of the nature and characteristics of the reser-
22 voir, so that there would be injury to the reservoir.

23 Any such injection, furthermore, would be subject to
24 sanctions by the Oil and Gas Supervisor under Section 3106 of the
25 Public Resources Code, and we regarded that as an additional safe-
26 guard; and, finally, the side agreement, the seventh bilateral
27 agreement between the City and the State that is set forth in the
28 calendar item, expressly requires that water injection not com-
29 mence until there is sufficient analytical information from drill-
30 ing operations and producing wells that injection can be done
31 consistently with good oil field practice. We think, with all

1 these considerations, that there could not be injection into the
2 field to the detriment of the reservoir.

3 Another question that came up in the Texaco letter,
4 which is mentioned on page 34 of the transcript, is whether the
5 indemnity and insurance provisions of the Field Contractor Agree-
6 ment might make the contractor liable for subsidence damage. I
7 believe that that letter was written prior to the time that we,
8 in conjunction with the City Attorney's office, clarified Section
9 30 of the Field Contractor's Agreement; and I think that it is
10 completely clear now that the Field Contractor will be liable
11 without entitlement to reimbursement for any loss occasioned by
12 its own negligence, otherwise damages will be shared between the
13 Field Contractor on the one side and the City and the State on
14 the other, in proportion to the net profit bid.

15 Now, I believe that that provision is abundantly clear
16 at this time. If any of the company attorneys believe there re-
17 main ambiguities, we will of course be happy to discuss them.

18 Another question that came up in the course of Mr.
19 Scott's statement, and that is referred to on page 106 of the
20 transcript of the last proceedings, is whether or not the Field
21 Contractor is required to buy all of the oil produced from Tract
22 Number 1. Now, I think that that question arises through a mis-
23 understanding of the terms of the Field Contractor Agreement and
24 I think that the agreement is abundantly clear; but, there again,
25 if clarification is required we, and I am sure the City Attorney,
26 are open to suggestions.

27 The purpose of the section of the Field Contractor
28 Agreement to which Mr. Scott referred is simply to set the terms
29 upon which the oil will be valued. The accountability to the
30 City is set forth in Section 5 of the Field Contractor Agreement
31 and both during the production payment period and the subsequent

1 payment period, it is clear that the Field Contractor must account
2 on the basis of all oil allocated to Tract Number 1. So, whether
3 he takes it himself, sells it off, or drinks it, he must account
4 for it on the same basis and pay for it on that basis.

5 Now, another question that came up in the course of the
6 meeting that I'd like to refer to briefly is the question, "Why
7 the City should reimburse the pre-unit expenses of onshore opera-
8 tors." I feel that had a pre-unit agreement been executed by the
9 parties, that the terms of that agreement should be available to
10 the Commission as part of its approval and should be available to
11 anyone who signs the Unit Agreement, because that pre-unit agree-
12 ment will affect the definition of Unit expenses -- which, of
13 course, is vital to everyone concerned.

14 As a matter of fact, the purpose of that provision was
15 simply to reimburse administrative expenses and printing costs
16 that were considered to benefit all members of the Unit and to
17 assure that those who undertook those expenses would be reimbursed
18 even though the Unit Agreement might not be finally executed.

19 As a matter of fact, no pre-unit agreement has been
20 executed and it is my understanding that none will be; and I think
21 it should be clearly understood that if and when one should be
22 executed, it must be submitted to the Commission for approval and
23 must be executed before the first person signs the Unit Agreement.

24 Another question that I'd like to discuss very briefly
25 is the provision in Sec.7.13, Unit Operating Agreement permitting
26 the unit operator to settle claims up to \$250,000 without consult-
27 ing with the other participants. I think it should be made clear
28 that the purpose of this provision is not to give the City as unit
29 operator and as trustee of the State, an additional unencumbered
30 power. It does not give them this, since at this stage of the
31 proceeding the State is not a participant in the Unit Agreement

1 and it is quite possible we never will be unless and until Tract
2 Number 2 is committed.

3 Therefore, the purpose behind Section 7.13 is to simply
4 allow the City, which is trustee for the State and would be liable
5 for the approximately eighty-five per cent of the cost of such
6 settlement, to make it expeditiously and safely and perhaps save
7 hundreds of thousands of dollars without delay, by consulting with
8 other participants; but the persons affected are the other parti-
9 cipants, not the City or the State. Therefore, we did not feel
10 that was a detrimental provision, but was of benefit to us.

11 SENATOR O'SULLIVAN: Do I understand this correctly --
12 that any claim would, if allowed, be deducted from the entire
13 fund? Wouldn't it?

14 MR. SHAVELSON: Yes, sir. It would become a Unit
15 expense under the Unit Agreement and would be allocated among the
16 participants in accordance to their tract participation; and since
17 it is anticipated that Tract Number 1 would bear about eighty-five
18 per cent of the cost

19 SENATOR O'SULLIVAN: And on Tract Number 1 at the
20 present time the State has at least fifty per cent of the revenue?

21 MR. SHAVELSON: A little better than fifty per cent.

22 SENATOR O'SULLIVAN: So I fail to understand where the
23 interest of the State is not affected.

24 MR. SHAVELSON: The interest of the State is affected,
25 obviously, to the extent that the City administers the trust
26 poorly or improperly. Now, that gets down, I think, to the very
27 guts of the relationship here; and that is simply that the City,
28 despite Chapter 29, remains the trustee. It has legal titles to
29 these lands and certain limited powers are vested in the State
30 under Chapter 29 to approve the terms of contracts. I do not
31 think that Chapter 29 makes us a copartner in the operation, and

1 I think that the City still retains all of the powers that any
2 legal trustee has. As you know, there are over a hundred grants
3 up and down the State; and although our interest in this one is
4 much greater, the essential relationship is much the same --
5 except that we have to give prior approval to agreements.

6 If the City should act improperly and violate its
7 trust obligations in making such a settlement, then as any trustee
8 I think they would be subject to control and sanctions on
9 the part of the State.

10 SENATOR O'SULLIVAN: Does this compromise provision
11 bind both the settlor of the trust and the beneficiary?

12 MR. SHAVELSON: Yes, it does.

13 SENATOR O'SULLIVAN: If it binds the settlor in the
14 compromise, in the case the trustee makes a mistake in a compromise
15 for \$250,000, a mistake is waived under your provision;
16 is that right? How far does it go?

17 MR. SHAVELSON: If the City is acting in good faith,
18 I think that is correct -- that we would not have that power;
19 but the purpose of inserting this provision in the Unit Operating
20 Agreement is to allow the City to do this without consultation
21 with the other participants in the tract, and certainly as
22 to them it is an extreme provision. Now, it would be possible
23 for us to put in an additional bilateral agreement between the
24 City and the State, under which, say, any compromise for a certain
25 sum would be gone over by the State Lands Commission and
26 by the Attorney General's Office. I think that might encumber
27 the very purpose of it -- which is to give them the ability to
28 make a fast, expeditious settlement of damage claims which
29 might otherwise far exceed the compromise amount.

30 SENATOR O'SULLIVAN: That is not an uncommon thing in
31 a trust, to make compromises without going to court or getting

1 approval or disapproval?

2 MR. SHAVELSON: Of course, there are a number of dif-
3 ferent types of trusts. I believe that the trend -- and I am no
4 expert in this -- but I think the trend in modern trust instru-
5 ments is to select a good trustee and then give him a broad range
6 of discretion; and I don't think \$250,000, in light of the many
7 hundreds of millions of dollars that are going to be expended on
8 operations here, is necessarily a very large amount and would
9 have drastic effect upon the over-all interests.

10 SENATOR O'SULLIVAN: Well, of course, you could involve
11 yourself in millions of dollars with a lot of \$250,000 claims.

12 MR. SHAVELSON: That is very true.

13 SENATOR O'SULLIVAN: But is the City, as a trustee,
14 liable to the State for a mistake -- even for \$250,000?

15 MR. SHAVELSON: It would depend upon the magnitude of
16 that mistake. I think a trustee is required to exercise the
17 care of an ordinarily prudent man in affairs of this character.

18 SENATOR O'SULLIVAN: That is under the provision or
19 without the provision?

20 MR. SHAVELSON: With or without the provision, the
21 City is subject, in my opinion, to the same standards as any
22 other trustee. The effect of the provision is to allow the City
23 as against the Townlot owners to make a settlement of this nature
24 without unanimous consent of all of the participants that might
25 otherwise be required and might otherwise make it impossible for
26 them to enter into settlements that the City considers to be
27 beneficial to the interests of the City and State. In other
28 words, it gives them greater powers as against the other
29 participants.

30 SENATOR O'SULLIVAN: Isn't it bilateral? Doesn't it
31 bind both the City and State with the same provision?

1 MR. SHAVELSON: Yes. The State is the beneficiary of
2 this trust and would be bound by it; and, as I say, the alterna-
3 tive would be to require the City to come in for approval by the
4 State Lands Commission -- and if the Commission should determine
5 that that is a desirable provision, we can request it from the
6 City. I think that is a matter of policy, as to whether they
7 wish to do so.

8 SENATOR O'SULLIVAN: In any event, you should have
9 some provision to settle and compromise claims in some amount.

10 MR. SHAVELSON: Yes, sir.

11 SENATOR O'SULLIVAN: You might argue about the amount
12 of the claim, \$250,000 -- but you certainly can't argue about
13 the principle that the trustee should be free to compromise
14 claims in some sum.

15 MR. SHAVELSON: Absolutely. I think it would finally
16 cost us money if they had to litigate and get the consent of the
17 participants.

18 SENATOR O'SULLIVAN: This is not an uncommon thing in
19 trust agreements?

20 MR. SHAVELSON: It is not uncommon. A similar provi-
21 sion is included in all of the unit agreements that have been
22 executed, but in smaller amounts.

23 SENATOR O'SULLIVAN: And it is not uncommon to find
24 it in oil leases?

25 MR. HORTIG: That is correct.

26 SENATOR O'SULLIVAN: This is not uncommon to find in
27 an oil lease?

28 MR. HORTIG: In many contracts.

29 SENATOR O'SULLIVAN: The company can make settlements
30 that bind the landowners?

31 MR. HORTIG: Well, an oil lease does not ordinarily

1 involve the landowner; but certain costs that might be a deduc-
2 tion from the royalty payment or otherwise at the discretion of
3 the lessee are not uncommon, no.

4 MR. CHAMPION: It seems to me what we really have here
5 is a larger question that doesn't go just to this provision, but
6 the whole relationship between the trustee and the State as
7 beneficiary, and what recourse the State has on acts of the
8 trustee with which it may disagree or in which it may want some
9 voice; and this kind of provision just recognizes this basic
10 relationship that is established here.

11 There is a broader question as to whether the State
12 needs some special provision, because of its very large interests
13 here as beneficiary, that give it some further voice in the acts
14 of the trustee -- not only this provision, but all provisions
15 in the Operating Agreement.

16 MR. SHAVELSON: I think that is true, Mr. Champion.
17 There is, perhaps, an anomaly here, although it is not uncommon
18 in private trust relationships, where the trustee is obligated
19 to pay over to the beneficiary but nevertheless has complete
20 control of the management. This is true with the City of Long
21 Beach except under provisions of Chapter 29 -- and they do not
22 give the tidelands, they don't give the State the right to
23 control the tidelands, but only to approve the terms of the
24 contract.

25 MR. CHAMPION: And this probably occurs throughout
26 the Operating Agreement?

27 MR. SHAVELSON: I believe that is true. In other
28 words, we had to deal with the law as it is, and we think the
29 City remains the trustee -- with very broad powers; in fact,
30 after the decision of Silver vs. the City of Los Angeles was
31 brought down, they were broader than we thought.

1 MR. CHAMPION: Have you or the staff discussed the
2 possibility of any change in this relationship -- legislatively
3 or otherwise, or by agreement -- to provide some further State
4 participation in the decisions of the trustee, or approval of
5 the decisions of the trustee?

6 MR. SHAVELSON: One step towards that, Mr. Champion,
7 are the seven bilateral agreements that were entered into.
8 That is something that is not contemplated by Chapter 29, but
9 yet we were faced with the problem that there were provisions
10 that were beneficial as far as the City and the other partici-
11 pants are concerned and yet could be administered to the detri-
12 ment of the State.

13 I am not answering your question, quite; but I want
14 to say this -- that I advised the staff that I thought there
15 was a limit under present law to the extent that we could inter-
16 fere with the day to day operations of this; and, specifically,
17 we have not discussed any particular modification of Chapter 29.

18 MR. CHAMPION: And it is because of the legislative
19 situation that you had recourse to this growing series of bi-
20 lateral agreements on these subjects....

21 MR. SHAVELSON: Yes, sir.

22 MR. CHAMPION: ... and had to handle each one in a
23 slightly different fashion.

24 MR. SHAVELSON: That's right. In other words, where
25 the Legislature states that we have to approve a contract and
26 that contract is necessarily broad because of a thirty-five
27 year term and the unknown conditions that might be met, we feel
28 that it has to be made more specific as far as we are concerned.
29 The lack of provision for further Commission approval of speci-
30 fic acts under those contracts is what made that necessary.

31 Now, I didn't mean to take quite this long, and this

1 will be the last point I want to go into.

2 SENATOR O'SULLIVAN: Mr. Chairman, could I ask one
3 question?

4 MR. CRANSTON: Yes, Virgil.

5 SENATOR O'SULLIVAN: It appears to me some thought
6 might be given to an annual accounting from the City to the
7 State, just as you have an accounting of a trust, in order to
8 do two things -- to inform the beneficiary of the trust and,
9 second, to relieve the trustee of liability by some sort of
10 accounting to the Lands Commission -- an arrangement for an
11 annual accounting, where they would make an accounting to the
12 Lands Commission and get approval of whatever transactions and
13 compromises were entered into that year, and then proceed.

14 MR. SHAVELSON: Mr. Hortig wants to respond to that.
15 I want to say, just briefly, that Chapter 29 does require the
16 City to account for its expenditures of its share of trust
17 revenues and provides for inquiry by the State Lands Commission
18 into the operation; and at our recommendation, a provision was
19 inserted in the Field Contractor Agreement that the State would
20 have full power to go into the books and records of the Field
21 Contractor to check on this.

22 May I turn the microphone over to Mr. Hortig?

23 MR. CHAMPION: Before you do that - - In providing
24 that, it does not provide any recourse? If the State does
25 approve of any agreement here, as I understand it, all we have
26 is a right to establish the facts and the persuasiveness of
27 the facts on the trustee. There is no way that the State could
28 implement any objections it might have.

29 MR. SHAVELSON: That is very close to the situation.
30 In other words, before we could establish an actual legal breach
31 of the City's duties as trustee, it would have to go very far;

1 So for practical purposes, if it is just a difference of opin-
2 ion between people in good faith on two sides, we have no
3 recourse. That is correct.

4 MR. HORTIG: I did want to amplify, particularly for
5 Senator O'Sullivan's benefit, the fact that the provisions of
6 Chapter 29 with respect to accounting by the City of Long Beach
7 to the State are, however, distinguished from the type of re-
8 porting which is necessarily made with respect to the oil and
9 gas operations and those operations which are conducted by the
10 City under a carte blanche authorization by the Legislature
11 under Chapter 29.

12 For example, in the matter of the Port operation,
13 there is generally a summarized total reported annually, as re-
14 quired by statute, but the detail therein, if it is to be re-
15 viewed, must be reviewed on an audit basis; whereas on the oil
16 and gas operations, there are monthly reports and in view of
17 the fact that the operating contracts for these oil and gas
18 operations are subject to advance approval by the State Lands
19 Commission, these operations are under review continuously;
20 whereas there is a considerable body of the operation by the
21 City under Chapter 29 on which legislative approval has been
22 given by classification of the operation that do not provide
23 equal scrutiny with the oil and gas operations.

24 SENATOR O'SULLIVAN: Within the trustee's accounting
25 there is an item, but there is no detail. Is this a separate
26 accounting or is it included in one?

27 MR. HORTIG: The accounting ultimately becomes a com-
28 posite of a series of accountings from separate funds, which
29 funds in general are accumulated from the oil and gas operation
30 and then are distributed and utilized in connection with vari-
31 ous operations and project expenditures -- both for projects

1 which require advance State Lands Commission approval and the
2 balance for projects which do not require under the statute the
3 advance approval of the State Lands Commission.

4 In other words, the Commission has approval responsi-
5 bility and authority only as to a portion of the operations by
6 the City of Long Beach on the tide and submerged lands.

7 SENATOR O'SULLIVAN: Does the Commission have a
8 policy decision as to whether there could be a complete account-
9 ing of funds annually?

10 MR. HORTIG: Well, there is such a complete account-
11 ing of funds made, Senator O'Sullivan, but the detail is not
12 explored in connection with those categories where the Legisla-
13 ture has previously said tideland funds may be expended for
14 harbor operations. For that, in a year "X" million dollars
15 were expended, and that is essentially the end of the report.
16 Audit scrutiny is given to determine that essentially all the
17 components were for reasonable harbor operation, but if it got
18 down to the point, as Deputy Shavelson just stated, of an honest
19 difference of opinion between the experts on both sides as to
20 whether or not a particular item was a reasonable harbor opera-
21 tion, this is where the subject matter currently would stop and
22 it would be a debating society from there on -- because, in
23 further reference to Mr. Champion's statement, there is no place
24 to go with this type of dispute and there is no provision for
25 the State Lands Commission to exercise any further jurisdiction
26 under these circumstances.

27 We have assumed if and when it ever happened the
28 Commission would have to report to the Legislature. Patently,
29 this would be a cumbersome administrative procedure.

30 SENATOR O'SULLIVAN: You have not yet faced the
31 problem in the Commission?

1 MR. HORTIG: No, sir.

2 SENATOR O'SULLIVAN: It occurs to me it might be help-
3 ful to have the Commission explore what would be apparently a
4 reasonable system of accounting in both of these fields --
5 reasonable in several ways; reasonable in the way of the exposi-
6 tion, and reasonable in the way of control, and also reasonable
7 in the way of releasing the trustee from liability for actions
8 at the end of the annual accounting period, whatever it was.

9 It appears to me that when you have a four billion
10 dollar operation and a City of four hundred thousand, it would
11 not be fair to place upon them the trust obligation and give
12 them no opportunity to render an account and to relieve that
13 liability -- a continuing liability throughout the life of
14 this transaction.

15 MR. SHAVELSON: Just one more point, and that is on
16 the monopoly question. We went into that matter in our opinion
17 to the Commission, pages 41 to 43 of that opinion, after con-
18 sultation with our antitrust department; and our conclusion was
19 that neither the City nor the State would be liable for any
20 breach of the antitrust laws by putting this parcel out in good
21 faith, in an attempt to get the most revenue out of it in open
22 competitive bidding -- and especially since the City is reserv-
23 ed broad powers of supervision, so that the Field Contractor
24 would be completely powerless to control rates of production to
25 affect detrimentally the competitive picture.

26 However, since the question was raised again at the
27 last meeting, we were contacted, as Mr. Hortig mentioned, by
28 the Antitrust Division in Los Angeles of the United States De-
29 partment of Justice and we arranged a meeting in the Attorney
30 General's Office with Mr. Disney and Mr. Somerville from that
31 office. They suggested the desirability of a sell-off provision

1 under which the Field Contractor would be compelled to sell off
2 about twelve and one-half per cent or one-eighth of the produc-
3 tion to qualified independent refiners, who would have a certain
4 limited number of employees and refinery capacity.

5 In accordance with that, we drafted an initial provi-
6 sion for the purpose of amending the Field Contractor Agreement
7 to so provide, and we submitted that draft to the State Lands
8 Division staff and to the City of Long Beach for their comment.
9 There has not as yet been time to get their response on it; but
10 if the Commission wants us to do so, of course we shall contact
11 the possible eligible refiners to see whether this provision
12 might meet their needs, and also prospective bidders to make
13 sure it would not impose any unfair burden upon the Field
14 Contractor.

15 Now, as far as the monopoly situation itself, the
16 productive capacity which the bidder or bidders may acquire, I
17 think that the most we can do is to offer our complete coopera-
18 tion to the Department of Justice or to any company or companies
19 in obtaining what is usually known as a railroad clearance for
20 the purpose of limiting this at least to a civil liability in
21 case the amount of production should ultimately at its peak
22 about 1970 achieve monopolistic proportions.

23 MR. CRANSTON: Jay, are there other matters you have
24 under study on which you are not ready to render any formal or
25 informal opinion?

26 MR. SHAVELSON: Well, I think the matters I mentioned
27 cover what we understood to be the major questions arising at
28 the last meeting. We may have missed some; I hope not.

29 One suggestion Mr. Scott made, which perhaps may be
30 desirable in light of what I think are misunderstandings that
31 have arisen, is that members of the industry and we sit down

1 and go over this, provision by provision, to explain the meaning
2 so that everyone has the thought of what it is; and if we have
3 said it ambiguously or if we said something we didn't mean to
4 say, I think that would come out in the course of such a
5 discussion.

6 MR. CRANSTON: Frank?

7 MR. HORTIG: Mr. Chairman, as a suggested addition to
8 your list of participants who have indicated approval or non-
9 approval of the proposed contracts, I believe you should add,
10 not as objectors, but possibly in the classification of neutral
11 objectors, Golden Eagle Refining Company -- who have not object-
12 ed to the contract proposal per se, provided that provision were
13 made for some quantity of oil allocation to small refiners; and
14 Union Oil Company of California, who have also suggested the
15 possible necessity for some modifications to render the contract
16 practicable, particularly from the standpoint of corporate tax
17 problems in relation to the contract as it is being proposed.

18 Also, the record should show that in connection with
19 my prior presentation to the Commission relative to the data
20 furnished pursuant to previous requests at the last meeting by
21 Senator Virgil O'Sullivan and by Senator Dolwig, while the
22 agenda item indicates these data were furnished to these gentle-
23 men, this is correct as to the principal addressees. Copies
24 were also made available to the other members of Senator
25 O'Sullivan's Subcommittee and Senator Dolwig and to all members
26 of the Assembly Committee on the Manufacturing, Oil and Mining
27 Industry.

28 MR. CRANSTON: Since the last hearing wound up with
29 the testimony by Mr. Clark of Shell and Mr. Scott of the Pauley
30 Company, I think it might be appropriate to hear from Long
31 Beach representatives, to say whatever they wish in regard to

1 the criticisms that have been voiced by those two witnesses and
2 by others, and to comment on any other questions that have risen
3 up to this stage of the game.

4 Virgil, are you going to be with us? We might discuss
5 for a second what arrangements we want to make for lunch. Both
6 Hale and I have some other matters we hope to get done in the
7 late afternoon and both of us have suggested having a rather
8 brief recess -- suggesting that people have lunch in the Employ-
9 ment cafeteria, which is very fine. Virgil, would that suit
10 you? We might quit at twelve and continue at twelve thirty, if
11 that would enable you to be with us. (Response inaudible to
12 reporter)

13 MR. DESMOND: Mr. Chairman, members of the Commission,
14 and members of the Legislature -- Jerry Desmond, City Attorney,
15 City of Long Beach. I would first call on our former Mayor,
16 Mr. Raymond Kealer, presently City Councilman, who has been on
17 the Council for approximately sixteen years and chairman most
18 of that time of the Harbor Industries and Petroleum Committee
19 of the City of Long Beach. Mr. Ray Kealer.

20 MR. KEALER: Mr. Chairman, members of the Commission,
21 let me say first, gentlemen, that I appreciate the opportunity
22 of speaking to you here.

23 I merely wish to point out what the policy of the
24 City has been generally and still is -- that is, of course, by
25 looking out for the welfare of the community and with respect
26 to the oil problems we want to do what will redound to the
27 greatest resultant benefit to the City and State and the inter-
28 ests of all of us.

29 I think it might be appropriate at this time -- this
30 will be very brief -- to give you the summary of the events
31 that led up to this present Unit Agreement and Operating

1 Agreement and Field Contractor Agreement.

2 The City became aware of a possible oil field in the
3 submerged lands outside the Harbor District about 1947. They
4 became sure of it because they had prior information on the
5 L.B.O.D. operation at the east end and then Richfield Parcel A
6 in 1947 started opening up a new area in the submerged lands
7 east of the Harbor District from Pine Avenue east. I do not
8 know exactly how many acres, but it is a relatively small parcel.

9 Then in 1948-1953, the City and State was engaged in a
10 battle on the Federal ownership of tide and submerged lands, and
11 because of that the oil revenues were all impounded during all
12 those years and a good deal of money was accumulated.

13 Then, in 1953, Congress passed and President Eisenhower
14 signed the bill which quitclaimed the tidelands back to the
15 State of California and that was the grant to Long Beach. Then
16 in June 1953, the Harbor Industries Oil Committee, of which I
17 am Chairman, requested the Long Beach Harbor Department, Petro-
18 leum Division, for a report on the oil development and the alle-
19 viation of subsidence in the offshore area. This report was
20 submitted and it was recommended that the City conduct a geo-
21 physical exploration, drilling core holes in the offshore area,
22 taking necessary steps for the unitization of the subject lands.
23 Part of the reason for requesting that was that there had been
24 a preliminary study and it indicated it would be favorable in
25 very general terms.

26 In January 1954, the Western Geophysical Corporation
27 did conduct a seismic offshore study and May, I guess it was,
28 the City engaged the firm of Stanley and Stolz to work with our
29 Petroleum Division and Doctor Mayuga to elicit the facts that
30 they obtained by interpreting these studies.

31 Not satisfied with all the reports at the time, the

1 City in 1955 again engaged Stanley and Stolz, and they made cer-
2 tain recommendations, which are consonant with the things incor-
3 porated in our Unit Agreement.

4 In February 1956, the subsidence problem became a very
5 serious threat and the various consulting firms who had been con-
6 sulting on problems with the Harbor District had recommended that
7 waterflooding would be the answer to this subsidence problem.

8 Then the City was afraid if it was to turn the thing
9 loose, it would have oil derricks uptown in the town area and it
10 would affect the subsidence, because by that time the subsidence
11 had become very bad in the Harbor area, including the Naval ship-
12 yard, so the electorate voted on an ordinance which precluded
13 any drilling in the downtown area and which included the sub-
14 merged lands.

15 Then the City, in 1951, concluded that it did not need
16 all of these funds for harbor and trust purposes and it requested
17 the State Legislature to pass, I believe it was A.B. 3400, at
18 that time, that fifty per cent was not needed for this purpose;
19 then in the Mallon decision in 1956 the City and the State of
20 California entered into a compromise agreement regarding the
21 tidelands and their future operations and this became Chapter 29
22 of the Public Resources Code.

23 In 1957, the City of Long Beach, which had been conduct-
24 ing a waterflooding program, a pilot flood, in the Harbor, formu-
25 lated a plan to extend this waterflooding to other properties.
26 In 1958, large waterflooding operations were started in the Long
27 Beach Harbor area; at the same time, operations were undertaken
28 to include non-City zones not under City operation. To insure
29 cooperation of the operators of the Wilmington Oil Field, the
30 State Legislature passed a bill establishing boundaries of a
31 subsidence district. These boundaries were established by the

1 State Oil and Gas Supervisor after a series of public hearings.

2 In '59, the success of the injection program as a
3 remedy for subsidence became evident in the Harbor district.
4 Subsidence was completely stopped in the Harbor District and
5 slowed down in others.

6 Under the leadership of the City, unitization of Fault
7 Blocks II, III and IV followed. The City continued to expand
8 waterflooding in the tidelands areas, and water injection was
9 started in Fault Block VI under a cooperative agreement between
10 the City of Long Beach and Producing Properties, Inc. They are
11 the ones that are producing in the Ranger Zone as far east as
12 Pine Avenue.

13 In '60, Fault Blocks II and III were formally estab-
14 lished under unit and unit operating agreements, and in 1961
15 Fault Block IV was formally established under a unit and unit
16 operating agreement. In the meantime, the success of the water
17 injection program in the subsidence area as a means of stopping
18 subsidence became much more evident. Subsidence was stopped in
19 all of the downtown area and a large part of the Harbor district.
20 The rate of subsidence at the center of the bowl had very appre-
21 ciably decreased.

22 In November 1961, at the request of the City Council,
23 the Petroleum Division of the Harbor Department submitted a com-
24 prehensive plan for the development of offshore and onshore
25 areas. On February 27, 1962, the electorate of the City of Long
26 Beach voted to permit drilling of oil wells in the offshore areas
27 subject to certain limitations.

28 From April through September 1962, under the leadership
29 of the City, a Unit Agreement and the Unit Operating Agreement
30 were formulated in cooperation with oil operators holding the
31 leases in the Townlot area. Members of the staff of the State

1 Lands Commission and the Attorney General's Office were present
2 during the formulation of these agreements.

3 During this period, the City also prepared the Contrac-
4 tor's Agreement for development of the property.

5 In October 1962, drafts of the Unit Agreement and Unit
6 Operating Agreement and Contractor's Agreement were submitted to
7 the State Lands Commission by the City of Long Beach for review
8 and approval; and from that date on, of course, they have been
9 up here and the City is doing all it can to expedite them.

10 At its meeting of March the 26th, the City Council
11 adopted a motion of Councilman Crow and expressly requested me
12 to request your Honorable Body to please expedite the matter
13 as quickly as possible, and if there are any changes or sugges-
14 tions that are necessary which would not be inimical to the City
15 or State, I think you will find the City will be perfectly will-
16 ing to work in that manner.

17 Again, I express my appreciation for being allowed
18 up here.

19 MR. CRANSTON: Thank you very much. We will now recess
20 and we will reconvene at twelve-thirty.

21
22 ADJOURNED 12:00 NOON

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1 AFTERNOON SESSION - MARCH 28, 1963 - 12:50 P.M.

2
3 MR. CRANSTON: The meeting will please come to order.
4 Mr. Desmond was about to proceed. Before you do so, Jerry, I'd
5 like to make a few comments for just a moment. I wonder if we
6 might, in order to save time today and to speed toward an ultimate
7 decision, consider how we are going to proceed and what
8 should be presented to us at this time.

9 It was, in part, I think, suggested by Mr. Shavelson
10 this morning that it might be wise to have Mr. Hortig and the
11 staff of the Lands Commission and the appropriate representatives
12 of Long Beach get together at a staff level session with members
13 of industry and go over the contract, and clause by clause thrash
14 out whatever differences of opinion there might be; and then
15 come back to a hearing of this sort after that process. That
16 might save the time of double and triple presentation at this
17 time and then before a Senate Committee and back here.

18 At the same time, there have been all sorts of hints
19 and suggestions about what occurred in the drafting of this
20 original contract as presented to us and the Unit Agreement.
21 There were remarks by Mr. Scott when he testified, vague refer-
22 ences to oil and gas companies that participated in the drafting
23 and those that did not; and in the material presented by Long
24 Beach, responding to remarks by Mr. Clark of Shell, the intro-
25 ductory remarks state that Shell personnel received copies of
26 the agreements in 1962. I don't know what form they were in,
27 whether they were final or not, but there is some reference
28 that the field operating contract was given to Shell, and I do
29 not know how far along it had been or whatever part Shell had
30 in the conferences on the drafting of the contract under con-
31 sideration here.

1 Regardless of what may have happened or not happened
2 or whatever anybody feels might or might not have, I think we
3 show by our procedure that we intend to have everybody comment
4 on all phases of the contracts and they have not been acted
5 upon, and we will not act until everyone who wishes to be heard
6 has been heard; and we will not act until the very best possible
7 agreements are available to us under all circumstances, and cir-
8 cumstances permit us to take whatever time is necessary. At this
9 time, of course, we wish as early a conclusion as possible on
10 the development of this matter, for very obvious reasons.

11 In addition to what has been said up to this point by
12 representatives of industry and others, I think we of the State
13 Lands Commission itself have our own questions about certain
14 matters which we would like our staff to explore.

15 We want the staff of the Lands Commission to come in
16 with whatever recommendations they may have on large or small
17 matters. Among the major items, we want to make certain there
18 is the fairest possible, and division of the fairest possible,
19 returns to the City of Long Beach and the State in terms that
20 we get maximum revenue to the State and that we get all possible
21 participation by interested oil companies.

22 I think we want the staff and everyone interested to
23 study whether the advance of fifty-one million dollars is the
24 wisest way to start, and what circumstances might or might not
25 improve the exact treatment of that fifty-one million dollars;
26 whether developing the field in one unit or more than one unit
27 is advisable. I think in my own view the evidence tends to
28 point to one-unit development; but a related question is whether
29 or not it might be possible to arrange bidding on more units so
30 there could be greater opportunity and more competition and
31 more money produced by that action. That is the thing we would

1 like to have the staff explore with us.

2 Also, we would like to explore whether the net profits
3 basis is the best for all or part of the field; whether cash
4 bonuses or royalties or some combination thereof might be pos-
5 sible. These are all matters we want your thinking on; that we
6 wish to clarify our thinking on.

7 At this point I think we should proceed with whatever
8 comments that would seem appropriate in this general outline,
9 but we should reserve the very precise geological issues and the
10 minute parts of the contract for, first, the staff level of the
11 Lands Commission and the staff of Long Beach and all interested
12 oil companies, and then bring back to us whatever comes out of
13 that process.

14 Unless anyone wishes to comment upon that general state-
15 ment at this point, we will turn to Mr. Desmond.

16 MR. CHAMPION: I agree with what Mr. Cranston has to
17 say but I want to add this -- that this does not mean that in
18 many, if not approximately all, cases we don't feel this is a
19 good document or that we disapprove of what is before us. What
20 we want to do is to explore certain alternatives and to weigh
21 them against these, and to see whether or not this is the best
22 way to proceed.

23 This is in no sense a disapproval of the contract which
24 has been presented, at least in its major features. This is an
25 exploration on some possible alternatives to be weighed, and I
26 wouldn't want the people from Long Beach or elsewhere to feel
27 that we don't feel this is a good contract or good document at
28 this stage. This is not critical; it is just that we need
29 more information to weigh the different provisions.

30 MR. CRANSTON: I concur fully with Hale's remarks.

31 Jerry?

1 MR. DESMOND: Mr. Chairman, Mr. Champion, members of
2 the Legislature, we would like to touch upon thirteen points.
3 Those will be briefly covered, however. The thirteenth and last
4 relates to a time schedule.

5 A number of questions have been raised. We have read
6 them in statements; we have read them in newspapers; we have read
7 them in certain activities or reports of the Legislature.

8 The first, and several of these, have already been
9 touched upon, and very ably and capably, by Mr. Shavelson; but
10 without repeating, we do feel that some of these should again be
11 touched upon. One is the matter of taxes and the question of
12 State and local and Federal taxes.

13 The matter of Federal tax comes up first, perhaps, in
14 relation to the fifty-one million dollar advance payment. Now,
15 if this were a bonus, it would have certain impact; if it is
16 treated as a production payment, then a different impact from a
17 tax standpoint -- because the first must be capitalized. Now,
18 what is important here is to stress and to realize that we are
19 trying for the State and the City to obtain the best bid pos-
20 sible and if those companies desiring to bid feel that in the
21 way the matter is presented to you it is a production payment
22 and they will bid higher, this is a matter for the bidders to
23 determine. The only reason that we have prepared the advance
24 payment in the manner we did is to improve the bid. There would
25 be no reason not to prepare it as a bonus and have the fifty-
26 one million dollars paid over the same period of time, strictly
27 as a bonus -- if it is done that way, that would be much simpler
28 than what is proposed here -- except then capitalization is cer-
29 tain and, therefore, the bids of all people would be less than
30 the higher bid of at least those few who, with a production
31 payment, would have tax gains.

1 Referring to the ad valorem tax matter which Mr. Shavel-
2 son has already touched upon, we are not here to solve the prob-
3 lem of whether or not there might not be new taxes of this nature
4 or others that the County or someone else might assess. We are
5 not trying to solve this and, by doing so, saying this is ex-
6 cluded -- that this will not be considered a chargeable expense.
7 If we shift the risk to the bidders, then we believe that there
8 would be a poorer bid from the standpoint of the State and the
9 City.

10 Furthermore, the taxpayer, the successful bidder, might
11 get a windfall and we think it particularly important that if
12 this is not a chargeable expense, if the successful bidder does
13 not have sufficient possessory interest, there might well be a
14 loss of his depletion allowance; and one might comment upon that,
15 that there was a notice in the Wall Street Journal yesterday
16 about what that actually means -- and it would be considerably
17 higher.

18 The second is the matter of the antitrust matter and
19 I think Mr. Shavelson has fully covered that and we ask the
20 State Lands Commission to approve the contract as it is, subject
21 to certain conditions. You tell us as a condition of your ap-
22 proval that there first must be a split-off of a reasonable
23 amount -- of course, after the contractor has had a return on
24 his investment -- but in a form which is satisfactory to the
25 Lands Division and to the Attorney General - - make that one of
26 your conditions and, of course, the City will comply. The City
27 must, in other such conditions, take another look -- because
28 that would be a change from the form that has been approved.

29 If I may pass this back and forth a little in the
30 interest of saving time, I wanted Mr Lingle to comment upon
31 the question, also in part touched upon by Mr. Shavelson, of

1 the liabilities as between the Contractor, the City, and the
2 State -- the matter of the \$250,000 allowance for settlement.

3 MR. LINGLE: Again I wish to emphasize the question of
4 State control. The amount does not enter into it. If it is
5 five dollars or fifty thousand or five hundred thousand, we are
6 living under the law under Chapter 29, as far as the City's
7 right to execute the Unit and Unit Operating Agreements.

8 MR. DESMOND: The fourth part is the capacity and geo-
9 logical aspects of the pool. This will be covered by Doctor
10 Manuel Mayuga, the Petroleum Engineer for the Harbor, briefly
11 at the close of our remarks.

12 Number five is the matter of title aspects and I be-
13 lieve that Mr. Shavelson's comments covered this entirely --
14 the matter of 16.1 of the Unit Agreement. All that, he has
15 made very clear to all of us, and I would only like to add that
16 the Long Beach Unit Agreement which is before you is modeled
17 after the three that are already in existence, all three of
18 which were previously approved by the Lands Commission and one
19 of which was before the California Supreme Court and approved.

20 The next, the sixth, is relative merits of a net
21 profit or leasing arrangement; and perhaps what is really
22 thought of here would be more the difference between a percent-
23 age of net profit or a bonus plus a fixed royalty. I think Mr.
24 Hortig's comments at the start of the last meeting covered that
25 very satisfactorily, but Mr. Brock, the Petroleum Administrator
26 of the City of Long Beach, will in some charts, I think, make
27 very clear to you just what the cash flow is that will come
28 from the development of this area.

29 Then, number seven, also to be covered by Doctor
30 Mayuga -- the question of subsidence abatement and methods.
31 Incidentally, of course, the methods used have stopped

1 subsidence and the methods used have produced such a fine
2 secondary recovery that those figures have already been submit-
3 ted to you; and I believe Mr. Hortig reported last month in
4 detail upon the economic analysis which he had requested and
5 which he was furnished, which covers that.

6 Number eight -- the effect of the rate of production
7 on imports. I think this would perhaps be repeating in part
8 what we said a month ago, but the State needs a total of one mil-
9 lion barrels of crude; the State production is eight hundred
10 thousand barrels; therefore the need for imports of two hundred
11 thousand. If this new area is developed and if it produces, say,
12 one hundred to one hundred fifty thousand barrels, there is
13 still need for additional imports of at least fifty thousand
14 barrels. This is the daily production. We suggest keeping this
15 business in the State of California.

16 Number nine out of the thirteen, Mr. Lingle will com-
17 ment upon -- the matter of average posted versus the highest
18 posted price.

19 MR. LINGLE: In our present agreements in Long Beach
20 we are paid on the basis of average posted price. We think that
21 the bidder will be able to give us a better bid if he knows that
22 he is bidding against an average posted price, rather than if he
23 must account to his working interest accounts based on the va-
24 garies of an artificially high price. An average posted price
25 would tend to be more realistic as to what oil is actually
26 worth. If he has to account for the highest posted price, some
27 unsuccessful bidder might artificially bid a higher price and
28 thus have the Field Contractor at his mercy. Thus, we feel the
29 average posted price will produce an over-all better bid.

30 We made a comparison since 1950 and found the variance
31 on the average posted price and the highest posted price on the

oils the City sells on existing contracts amounts to 16/100ths
1 of one cent; and traditionally, all posted prices may vary a day
2 or two and then they are all the same anyway.

3 Furthermore, we wish to emphasize we will again be paid
4 for on the tenth degrees of gravity, which we think will amount
5 to three cents a barrel, a substantially important figure to us.

6 For these reasons, we believe the average posted price
7 will enable the bidder to return to us a greater amount than
8 another method.

9 MR. DESMOND: Number ten -- the matter of the interest
10 rate. Our City Manager, Mr. John Mansell, is here today, and
11 will explain to you the manner in which this rate was established
12 and I would like to stress that whatever the interest rate, it
13 is in the bid. It is part of the bid itself; so long as it is
14 less than the company would expect to earn on its own money.
15 This has been used again as part of the creation of the produc-
16 tion payment concept. So whoever is successful will have at
17 least a chance for a better tax position and he would, therefore,
18 bid higher and a greater return would come to the State and the
19 City. But, again, we hope that the Lands Commission will ap-
20 prove this group of documents before you and let the Commission
21 set whatever that rate may be, and do so on the basis that the
22 contracts, when this particular contract is approved, provide
23 that the interest rate is changed to "X" rate satisfactory to
24 the Commission.

25 Number eleven -- the matter of specific tract inclu-
26 sions in a Unit Operating Agreement. May I say, before I ask
27 Mr. Lingle to touch upon this, that I agree with what the
28 Chairman said earlier. Evidently, there was considerable mis-
29 understanding about, perhaps, the use of the word "participating."
30 Now Mr. Lingle will explain the procedure followed in the forma-
31 tion of the Long Beach Unit and he will explain that the people

1 with working interests were called upon to participate -- because
2 after all, if I have an agreement with my neighbor for a commun-
3 ity fence, I don't speak to the man up the street and tell him I
4 am talking about this; I don't call in the outsider. In no unit
5 is that done.

6 Now, on the other hand, when we speak of the Field Con-
7 tractor Agreement, which has actually no relation to the working
8 interest owners as such in the Unit Agreement and the Unit Oper-
9 ating Agreement, that was, as we have said several times, pre-
10 pared by the City; but, as we have stressed at all times and I
11 think have set out very clearly in the statements we will file
12 at the conclusion here, we have solicited information from all
13 of the companies -- all that we thought might possibly have some
14 interest in the proceeding. So that one of the three agreements,
15 that was prepared by the City; but, as you know I am sure, we
16 did solicit information and suggestions and then we considered
17 those, but the decisions were made by the City of Long Beach.

18 There was also, of course, discussion with Mr. Hortig
19 and the staff and Mr. Shavelson and others from the Attorney
20 General's Office; but I would like Mr. Lingle to speak on the
21 matters of the Unit because I believe there has been a great
22 deal of misunderstanding -- I am sure not by members of the Com-
23 mission, but perhaps by some others.

24 MR. LINGLE: I have been asked to oversimplify the
25 statement of what unitization is. Unitization will enable us
26 to develop the Long Beach Unit, the largest known undeveloped
27 oil reserve in the United States, without the risk of subsidence.
28 I don't want to further elaborate on that -- you well know about
29 that; but it also enables us to do this without the danger of
30 damaging the beauty of our residential or shoreline area.

31 These are some pictures of Huntington Beach and similar

1 beach communities. The exact date of this picture I am not sure
2 of, but I think it gives you an excellent illustration of what
3 we don't want to have happen in Long Beach. The second group of
4 pictures were taken in 1955 in the development of downtown Signal
5 Hill. We all remember Signal Hill and Huntington Beach, with
6 their forests of derricks -- at least, those of us from Long
7 Beach do.

8 This was because oil operators secured leases and devel-
9 oped them to the maximum. There was no concern over the most
10 efficient way to develop the oil reserves or the ultimate maxi-
11 mum return. The concern was how much immediate profit could be
12 gotten from each lease.

13 The industry came to realize that much of the develop-
14 ment was duplication and waste, and one well could do the work
15 of several.

16 Progress in secondary recovery methods showed that as
17 much oil again could be produced by secondary methods such as
18 water flood or gas injection as had been produced by primary
19 methods. Engineers realized that the key to developing entire
20 oil reserves so as to avoid duplication and waste and to permit
21 pressure maintenance and repressurization was a method that
22 would enable them to ignore property lines. The old concept of
23 developing each separate property had to be obliterated in the
24 future. The solution was unitization.

25 Customarily, to achieve unitization, two contracts are
26 drawn. In the Unit Agreement, the property owners -- in other
27 words, the lessors -- who usually receive a gross royalty on all
28 products produced, under this gross royalty do not participate
29 in the expenses. Under the old type leases, the operator had to
30 account for the oil produced from this lot and from this well.
31 So, if you are going to avoid duplication and not have a well on

1 each lot, you had to find some way to have fewer wells and to
2 give the property owners an undivided interest in the entire
3 field, and this is the point: When you have property owners
4 either actually assigning or by powers of attorney in their
5 leases permitting their working interest owner to join other
6 working interest owners, you obliterate the necessity of account-
7 ing for how much oil is produced from this particular piece of
8 property and get away from having oil wells on the uplands.

9 The Unit Operating Agreement is executed by all the
10 working interest owners and provides for day to day operation of
11 the oil field and provides for agreements for sharing expenses.
12 That's why our ability for the City to settle damage claims up
13 to \$250,000 is in the Unit Operating Agreement. That is why the
14 royalty interest owners, the property owners, customarily do not
15 care what is in the Unit Operating Agreement, because they are
16 paid on gross and not on net.

17 However, one important concept -- it still remains the
18 responsibility of the working interest owner to market his own
19 oil; the unit will produce, develop it, and deliver it to you
20 but you have to find a buyer for the oil.

21 Long Beach entered into unit agreements in the Harbor
22 area when the Fault Block II and III agreements were executed in
23 1959. In 1961, a unit agreement was executed in Fault Block IV.
24 As you know, the major point was to repressurize the area, curb
25 subsidence, and produce greater income to the City. Fault
26 Blocks II, III and IV are among the largest oil producers in the
27 United States and the largest water flood projects in the world.

28 The Fault Block II agreement was approved by the Cali-
29 fornia Supreme Court, and each of the unit agreements was ap-
30 proved by the State Lands Commission and the Attorney General's
31 Office. Each of these has served as models in the agreement

1 before us.

2 The Long Beach Unit Agreement, about which we are talk-
3 ing, covers an upland area which consists of more than ten
4 thousand separate tracts. Richfield, Superior, Jade, Signal,
5 Union, Standard, and Continental Eastern were the companies who
6 had secured leases on these uplands, so naturally these were
7 the companies who participated with the City in formulating the
8 Unit and Unit Operating Agreements. Companies without leases
9 in the Townlot area would only have academic interest in such
10 Unit agreements. Richfield and Superior have been paying delay
11 rentals on their leases for years. Other companies entered the
12 leasing picture about in 1962, about the time of the City ordi-
13 nance, while others did not proceed with leases until the summer
14 of 1962 and they are still leasing.

15 In all unit agreements, it is essential that all work-
16 ing interest owners approve the terms of the agreements; other-
17 wise, we would be wasting our time. This requires cooperation
18 from all companies. The City had one advantage in negotiating
19 this agreement -- the only way that oil could be produced was
20 from an offshore drilling island, and thus the City was demand-
21 ing the safeguards it felt necessary. The City was designated
22 Unit Operator in the agreements. In other words, the City has
23 the responsibility to see to the actual development; and as
24 Unit Operator, the City has responsibility to build the off-
25 shore drilling islands, drill the wells, build all the needed
26 facilities, and develop the fields.

27 It has been said we don't really need a Field Contrac-
28 tor Agreement. There is another alternative, a permissible
29 route that we could go. However, it was decided the most satis-
30 factory method would be to hire a Field Contractor to do the
31 work under the supervision of the City. So the City drafted

1 the Field Contractor Agreement to set forth the terms under
2 which the Field Contractor will operate on behalf of the City as
3 Unit Operator; and, in addition, the Field Contractor also has
4 the responsibility to take and pay the City for oil and wet gas
5 products from this tract in the next thirty-five years.

6 The City gave any interested party all the information
7 at our disposal. We have records of contacts with more than
8 sixty-five such companies, who secured various types of informa-
9 tion from the City at various times -- but the City contacted
10 the interested companies and informed them that the City had
11 such information available.

12 In late December 1962, we mailed a letter to over forty
13 companies, informing them that we felt we were nearing a final
14 draft of the Field Contractor Agreement and requesting them to
15 give us any comments they might have.

16 MR. DESMOND: Number twelve -- the question of the com-
17 mitment by the necessary sixty per cent. This has been touched
18 upon, but again we would suggest that the Lands Commission ap-
19 prove the documents before you, subject to the condition that
20 there be approval, there be commitment, by the necessary sixty
21 per cent within a specified period of time, and a period of
22 time prior to the opening of the bids on the contract.

23 May I note that, in addition to the letters that have
24 been received, I have been advised that the companies are pres-
25 ent and they are here to advise, if you care to hear from them,
26 that they are ready -- more than the necessary sixty per cent --
27 they are ready to sign after approval; not after the opening,
28 not after the decision on the award -- but immediately.

29 Now, thirteen, the last one

30 MR. CRANSTON: On that point, Jerry, are you unable to
31 act presently, as was discussed in our last meeting, until the

1 Commission has approved the agreement by the City in writing?

2 MR. DESMOND: Not entirely. This has been discussed
3 with Mr. Shavelson and I know that the companies have indicated
4 that they are willing to sign now. I believe Mr. Shavelson's
5 advice would be against this, but if you will let us have your
6 suggestion that it be done in one month's time - - we don't know
7 when we will open

8 MR. SHAVELSON: The only thought I had in mind was that
9 I don't like us to be under pressure to preserve existing provi-
10 sions any more than we have to. The \$15,000 or whatever it is
11 printing cost has already done that. In the course of drafting
12 the provisions, there is certain language that we might consider
13 ambiguous -- not basic matters, but little things that we would
14 like to feel free to change; and I think the actual execution of
15 this would freeze it more than it is frozen now. That was the
16 only thought I had in mind.

17 MR. CHAMPION: In other words, you want to know what
18 the form of the Field Contractor Agreement is before you know
19 precisely what kind of commitment you would have signed by the
20 companies.

21 MR. SHAVELSON: That is a good point. In addition,
22 the general complexity and the novelty of this thing is such,
23 I think the more we go over it the more ideas we will have.
24 That's all.

25 MR. CHAMPION: We can simply make it conditional --
26 the approval of the Operating Contract is conditional upon
27 signing of the commitments.

28 MR. SHAVELSON: I would feel that would fully take
29 care of that.

30 MR. DESMOND: The last of the points before presenting
31 others to cover those which we skipped over, is the matter of

1 the time schedule. The Long Beach Oil Development has an operat-
2 ing contract with the City of Long Beach which expires in March
3 of next year. You members of the Commission, I am sure, will re-
4 call that there were previously several contracts, all of which
5 were consolidated for the purpose of allowing the City properties
6 to enter the units that we have been speaking of earlier; but at
7 the same time, there was not and there could not be under the
8 law any extension. The fact is that for some of those contracts
9 there was some shortening of the existing contracts in this com-
10 bination.

11 The Long Beach Oil Development contract since 1939 has
12 produced well over two hundred eighty-two million dollars to
13 June 1962, in addition to the many millions of dollars which
14 have paid for equipment in the area; and it is expected that a
15 very sizable portion, approaching that amount of money, is prob-
16 ably still beneath that area covered by the present operating
17 contract, and it is to the interest of the State and the City
18 that the best bid possible be obtained for the development of
19 that developed field. I heard some comments before about it
20 being drained and I can assure you that from all information
21 that is available to the State and City, there is oil there.

22 Now, let us talk for a moment on the time schedule,
23 actually two time schedules -- if we go backwards from March
24 in relation to the Harbor parcels and if we go forward to the
25 contract today, the letting of the contract and the development
26 of the new area.

27 If we can take some arbitrary figures as we go along,
28 talking about the Harbor parcels we know that in March 1964, less
29 than a year from now, there must be an operator ready to operate.
30 We want the best bid possible. We do not want to set this up
31 for any company such as the one in existence. We want this to

1 be full and competitive bidding, and we want the best bid for
2 the State and the City. There is no provision for extending the
3 contract -- that would be violative of law.

4 I think I have explained, without necessity of repeat-
5 ing, those are not wells that can be turned over -- neither the
6 producing wells nor the injection wells; and we are not inter-
7 ested and the State is not interested in loss of revenue.

8 Let us say, for a state of transition for a successful
9 bidder to move into the area and take over the operation of the
10 area, to keep those wells pumping and those water injection wells
11 injecting water - - let's say he would have a period of three
12 months in advance of that closing date in March that he would
13 know he was going to take over.

14 I won't go into the quite obvious matters of personnel,
15 procedures, equipment, other things he would have to take care
16 of in that period of time. We are back in December of this
17 year.

18 There is a thirty-day waiting period in which all con-
19 tracts must lay on the City Council table; also there is the
20 necessity for approval by this body of the new contract, the
21 award of the new contract, the award itself. So let's say a
22 month before. There is no leeway. We are not allowing any ex-
23 tra days here. Thirty days before, we are in November now, the
24 decision should be made that this is the successful bidder, and
25 the compulsory thirty-day waiting period.

26 Then, how long should this bid be out? How long should
27 this notice inviting bids give the people to work on a very
28 large and substantial area for development? Should we say a
29 three-month period, ninety days? Then we are back in August,
30 and that means that in August we must advertise for bids on
31 this contract. Prior to that time, prior to the advertising,

1 there must be approval by the State Lands Commission, as well as
2 the City Council of the contract itself; and we are now talking
3 about August. This means advertising for bids.

4 There must be, then, the period of time for considera-
5 tion and approval, the work that would be necessary with the
6 State Lands Division, the Attorney General's Office, again look-
7 ing toward the approval of this Commission; and we are just
8 about at that point right now where this should be at least pre-
9 sented to you. So we are back in March, the end of March, or
10 the first part of April.

11 So, going from April on the other contract, the one
12 that is before you -- This is April, and how long should it be
13 up for bids? If we say ninety days, then July; open the bids in
14 July, and then there is the necessary thirty-day layover for
15 approval by the City Council.

16 There is the necessity during that same period of time
17 to have approval of the Lands Commission for the award of the
18 contract; and I repeat, because I think this is vitally import-
19 ant, that if the bids are not satisfactory to this Commission,
20 then certainly this Commission is going to throw them out and
21 the City Council would not be interested in approving an award
22 if we do not have good bidding.

23 But, let's say this is determined -- that's July. That
24 is a matter of having the actual award of the contract itself
25 made in the month of August.

26 We think it to the disadvantage of the State and the
27 City to have the two in competition one with the other.

28 Now, we could all make variations. Where I said three
29 months, we could say four or two or something entirely different.

30 I'd like at this time to call Doctor Mayuga to cover
31 the two items I spoke of earlier; I remind you -- of the matter

1 of the geological aspects, capacity of the pool, and then the
2 question of subsidence methods, subsidence abatement. Doctor
3 Mayuga will be assisted - - it probably would be easier, Mr.
4 Chairman -- whatever you believe is best -- if he were there and
5 perhaps Mr. Brock would assist him if we have the explanation of
6 the charts which he has.

7 Mr. Brock, who is our Petroleum Administrator, has
8 worked actively as a petroleum engineer in the Wilmington Oil
9 Field for the past thirteen years, for the last ten years of
10 that period of time with the City of Long Beach.

11 Doctor Mayuga is also a petroleum engineer with a
12 Bachelor of Science in Mining Engineering in '38 - - I am intro-
13 ducing Doctor Mayuga because I know he has not previously spoken
14 to you and I know you heard from Mr. Brock last month. Doctor
15 Mayuga -- Bachelor of Science in '38, Master of Science in Geolo-
16 gy in 1940, Ph.D. in 1942. He has been with the City since
17 1948. Prior to that he worked for two years in the same Wil-
18 mington Oil Field. He is a registered petroleum engineer since
19 1948 and in his spare time that we don't take from him, he is
20 very active as a retired Air Force Colonel.

21 MR. CRANSTON: Jerry, I do suggest that the areas
22 Doctor Mayuga should cover be those that are relevant at this
23 moment, reserving for discussion with staff and industry the
24 details. That would, perhaps, be more appropriate at this time.

25 MR. DESMOND: We talked to Doctor Mayuga, and I know
26 because of the knowledge he has he could take a great deal of
27 time, but I believe the charts would be of great value to you
28 and I believe we ran through them in ten minutes last night.

29 I believe it is important to know the complexity of
30 the field which is to be developed and to hear some reference
31 to the problems that do already come up.

1 DOCTOR MAYUGA: Mr. Chairman, Mr. Champion, I am glad
2 for the opportunity to explain to you the complex nature of our
3 oil field. I think a little understanding of the actual geology
4 aspects would explain the reasons behind why you have such a
5 proposal before you.

6 Our oil field is located in the southern part of Los
7 Angeles County, as most of you are familiar with. This chart
8 indicates the location of the area that has been developed and
9 the undeveloped area, and it isn't a mysterious oil field as far
10 as we are concerned -- we have worked around it, on its edges
11 for many years.

12 Getting a closer look at the oil field, we have the
13 developed area which is now under contract to L.B.O.D. and the
14 Richfield parcel, and the Townlot operations. This itself might
15 constitute the largest oil field in California and the second
16 largest in the United States; and the subject land in question
17 is covered by these outlines which I am showing with my pointer.
18 This happens to be the State lease which is the Belmont offshore
19 oil field.

20 Here again, gentlemen, is a picture of a closer look
21 at the structure configuration of the developed area. I in-
22 cluded this chart to show you we do know a lot about this oil
23 field because there have been almost three thousand oil wells
24 drilled in this area.

25 Again, here is the L.B.O.D. area and Parcel A - - and
26 this, now, is our offshore area now in question.

27 In 1958, because of the problem of subsidence -- Mr.
28 Kealer earlier referred to it in his testimony and again it was
29 referred to by Mr. Lingle -- in 1958, by an act of the Legisla-
30 ture, later on by the determination of the Division of Oil and
31 Gas, a subsidence district of this configuration was declared

1 or embodied as a determination of the Division of Oil and Gas.
2 The entire area we are discussing now is in this subsidence
3 division. I would like to point out the subsidence contour,
4 which shows currently about twenty-seven feet at the center of
5 the subsidence; but definitely from 1959 to the present time we
6 have practically stopped subsidence with our repressuring opera-
7 tions; and, as Mr. Desmond pointed out, we have roughly increased
8 production in tidelands areas alone about two and one-half times
9 what we would ordinarily have obtained by ordinary methods.
10 Therefore, we have accomplished two things -- we have stopped
11 subsidence in the area and have increased our production in a
12 large proportion.

13 Just by relative areas, or in acres, we are talking
14 about in what is referred to as Parcel 1 approximately 4400 to
15 4500 acres, the Alamitos State Park is roughly 400 acres, and
16 the Townlot area may exceed 1700 acres at the present time.

17 Now, in 1954, the City of Long Beach, after the Federal
18 Government settled the question as to the tidelands ownership,
19 proceeded by instruction of the City Council to conduct a geo-
20 physical seismic operation in its offshore area and this is the
21 result. It is a seismic map. It probably doesn't mean very
22 much to an untechnical man, but to just give you briefly how we
23 arrived at this, this is essentially a method well known in the
24 industry -- where ninety-pound black powder charges were made
25 every twenty feet along this area and the shock waves at great
26 depths were registered on seismic geophones; and the seismolo-
27 gists came out with the structure's configuration.

28 Briefly, this represents the top of the contour of
29 one of the horizons some two thousand feet above sea level.

30 Based on this map, the seismologists refined it and
31 came up with a structural configuration which I think a simple

1 way to explain is that we removed two thousand feet of over-
2 burden in this area. We actually have a buried hill some fif-
3 teen hundred feet high -- this is the top of that hill, and
4 here would be about the bottom of the valley.

5 Another one, on the northern part of our City, was this
6 hill, actually known as an anticline in geological terminology,
7 and here is the trap that laid there and trapped the oil for
8 millions of years.

9 Let me point out the complexity of the developed area.
10 We have a number of faults. These are movements that happened
11 many years ago and based on our seismic survey we located simi-
12 lar faults that complicate our area in the developed portions.
13 So we anticipate perhaps more complex or just as complex oil
14 fields in the undeveloped area.

15 Based on that map, we draw a cross-section through
16 that hill in a southeasterly direction, take a slice off it and
17 remove one-half of that particular oil field, and step aside
18 and look to the north. A geologist sees a configuration like
19 this. It is a cross-section which shows in red the developed
20 portion of the field and our estimate of the oil horizons in
21 this area.

22 I'd like to emphasize that these are seventy-five pic-
23 tures, simplified into geological interpretations, because actu-
24 ally this consists of some four thousand feet of sediments, of
25 alternating shales and sands, varying in thickness from two
26 inches to one hundred feet, all with different limits, all
27 with different characteristics, all with different aspects.
28 I am pointing this out because what we found in this developed
29 field -- it took many hundred wells to actually pin down our
30 construction of the area.

31 Now, drawing a cross-section in a north-south direction

1 we have a configuration that looks like this. This is the anti-
2 cline of the hill I am referring to, part of the hill. This
3 red line indicates the approximate boundary of the Townlot area,
4 the onshore area. With respect to the offshore area, I think
5 this diagram will show very clearly the connection of the reser-
6 voir and also many of the sands and water limits.

7 This happens to be the Ranger Zone, which extends some
8 distance into the Townlot area. It is approximately
9 threemiles from what we regard to be the approximate limit to
10 the north and to the south. I think this cross-section shows
11 vividly the complex currents of oil.

12 Incidentally, there are six different zones that we
13 know of within this area.

14 Here is another cross-section, more to the east. It
15 just shows more of the complexity of the oil in the offshore
16 area.

17 A plan was proposed by the Long Beach Harbor Department
18 in its 1961 report of repressuring or maintaining, producing by
19 pressure maintenance in this area, by injecting water along the
20 aquifer and also in a pattern flood along the main part of the
21 structure in an alternate five-spot pattern, five-spot placing --
22 where we would produce at the same time oil with the repressur-
23 ing operation. This is one of the zones.

24 On the next map -- as I mentioned, we have six differ-
25 ent zones -- here is a little narrower zone. We have proposed
26 a number of wells in the structure and water injection in the
27 aquifer.

28 Here is another zone, the Ford zone, just a little bit
29 narrower; the Lower Terminal zone; the Union Pacific zone. In
30 other words, what I am developing here is different zones of
31 water limits in the area. Here is our known deepest zone in the

1 offshore area.

2 We propose to drill some wells for this offshore devel-
3 opment from our Pier J, which is now under construction, and we
4 have made plans for a drill site. At the same time, this Pier J
5 will be the site of wells that we are trying to drill on the
6 presently developed area, on the L.B.O.D. parcel in particular,
7 so that Pier J will play a major part in our oil development.

8 In order to develop this field, our petroleum staff has
9 determined, and it was proposed to our City Council and approved
10 by the voters, that the field will be developed from four drill-
11 site islands, approximately ten acres in size, located approxi-
12 mately in this area shown on the map; and this different colored
13 arch here indicates the angle of the whole to the vertical in
14 order to reach these various portions of the oil field.

15 You can readily see that we can reach all of the forma-
16 tions here within our estimates. We can develop every portion
17 of this formation from these four islands.

18 Here is a little detailed picture of the island we have
19 proposed. This is just a proposal. It will probably be subject
20 to some changes as we get closer to the actual operation, but
21 essentially this island, which can accommodate three hundred
22 wells, has provision for water knock-out facilities, production
23 yards, buildings, and so on, and oil will be piped out from
24 these islands into the Harbor district, none of which will go
25 through our downtown section; and it will be essentially a
26 water-borne operation.

27 Gentlemen, when we made a proposal in 1961 to develop
28 this offshore field and wrote this report to the City Council,
29 we were guided by certain obligations which we felt the City
30 has in the administration of its trust that we have in Long
31 Beach. First, we feel that if we have to propose a program of

1 development, it should be a program that should fulfill the
2 terms of the trust; it should be a program where we can conduct
3 the producing operations according to law with maximum safe-
4 guards against subsidence damage, noise, contamination, waste,
5 and the detriment to the beauty of our shoreline; and, third,
6 which we think is important to us and the State, we must secure
7 contracts and agreements with maximum returns to the City and
8 State.

9 I think, gentlemen, the proposals before you have been
10 designed in this manner. We feel that a single unit operation
11 in the area, that will enable us to apply our engineering tech-
12 niques and geological techniques without regard to parcel boun-
13 daries, would be in the best interests and allow us to fulfill
14 our obligations.

15 Another important feature before you is the City con-
16 trol of these operations, in order to protect the City from
17 these items under (b) in my chart. We feel that any deviation
18 from that will prevent the City from fulfilling all its obliga-
19 tions.

20 Thank you very much.

21 MR. DESMOND: Now, Mr. Brock has a chart from which he
22 will speak, and this relates to the flow of cash that is pro-
23 posed and I think it is important to stress that while there has
24 been talk also about the spending of the money, I think it is
25 going to be clear that one can't spend oil, and that oil is out
26 there; and under the operation, no matter what division there
27 might be, there is only so much money available to start devel-
28 opment and so much money available in the next few years.

29 Mr. Brock.

30 MR. BROCK: Actually, I was going to compare the con-
31 tracts themselves but I believe Mr. Cranston has done that with

1 the members of the staff. However, this operating profit is
2 very pertinent to any method that you use to develop it. Actu-
3 ally this shows the money that is there and I think that is
4 what we want a contract for. This actually shows the cash flow
5 under the proposal that we now have before the Lands Commission.

6 You will note the dark red is the operating capital
7 that the operator himself must put up for Tract Number 1 only.
8 The pink is the advance production payment that he will be mak-
9 ing to the City until such time there is net profit available,
10 under the terms of the net profit contract. The lighter green
11 is the advance payment or production payment itself that would
12 be split with the City and the State.

13 This net operating profit does not take into account
14 the contractor's bid. These amounts actually, at the end of the
15 seventh year, would peak out at one hundred five million dollars
16 profit for that year. From that must be taken the bid of the
17 contractor, the Field Contractor.

18 It should be noted that if there were no advance or
19 production payment, that under this type contract there would
20 be no moneys to the City and the State until the end of the
21 fourth year. Without the production payment, the operator's
22 capital investment will pay out in about three and a half years.

23 MR. CHAMPION: Three and a half from what date -- the
24 date of the contract?

25 MR. BROCK: From the date that the contract is awarded.

26 Now, there are some other points to this. Certainly,
27 there are many assumptions that go into this. Part of them are
28 that we have eight exploratory holes drilled in sixty-five
29 hundred acres. That isn't very conducive to accurate estimates
30 on the oil. We have, however, with the knowledge we have from
31 the Wilmington Field, compared the activity of the Wilmington

1 Field with the logs we have obtained from these holes, and I do
2 believe this estimate is fairly realistic.

3 The Field Contractor will build all islands in the
4 first year. He will have sixteen drilling rigs going from the
5 first to about the seventh year. At that time he will cut down
6 to four and will maintain a fairly constant rate of production
7 of about 160,000 barrels a day total for the whole unit.

8 At this point, I think there has been a considerable
9 amount of misinformation from our figures. I say this because
10 at the last Commission meeting Mr. Clark, for instance, said
11 that we had eight hundred million barrels; Mr. Scott, we had a
12 billion six hundred million barrels. They would take our fig-
13 ures and multiply them with their figures .. Just for the
14 record, if you want to use our figures, use them all, take them
15 all, and don't take part and put yours in.

16 I'll quote what we think this amounts to: For Tract 1,
17 which is the tract that the Field Contractor will participate
18 in and will bid on, there will be a net operating profit after
19 thirty-five years of one billion, nine hundred million dollars;
20 the State Park will have one hundred thirty-eight million dol-
21 lars; the Townlot operators will have one hundred ninety-one
22 million dollars to split. I think that everybody realizes that
23 these figures are predicated on rate of development, the cost of
24 operations, and such things as that. However, we have taken
25 onshore known costs, projected them into the area, and added
26 what we feel would be realistic to operate from an island.

27 MR. CHAMPION: Excuse me. These are net returns to
28 the parties you mentioned?

29 MR. BROCK: The net operating profit. Now, in the
30 case of Tract 1, you will have to deduct from that the amount
31 of bid that the Field Contractor will have; in the case of the

1 State Park, we don't know what is going to be done, but there
2 will be one hundred thirty-eight million dollars that will be
3 divided in some manner between the State and whatever arrangement
4 they have with the operator.

5 MR. CHAMPION: Have you estimated - - I mean, you can't
6 estimate, but have you looked at a probable bid range?

7 MR. BROCK: Yes. I think this is personal and I am sure
8 that anybody who told me this is going to deny it. I believe
9 something in excess of eighty-five per cent, certainly.

10 Without going into any detail, I would like to add
11 several points on the bid itself. When we looked into the bonus
12 and royalty type bids, such as the State has, we felt that be-
13 cause of three major reasons you would get a very inferior bid
14 under these contracts. I believe everybody is aware of subsid-
15 ence and I believe they agree the City must control and maintain
16 control of subsidence.

17 Under a royalty type bid, the operator is required to
18 put up all the money. He must operate and attempt to make the
19 most money. That's what his bid is predicated on. If he has a
20 factor that the City can make him do things that may be unecon-
21 omic, just to stop subsidence or for beautification, it certainly
22 is going to influence his bid.

23 We feel that the contractor in a royalty bid has both
24 control of the rates of production and control of development.
25 Part of the advantage of the royalty bid is that he has full con-
26 trol of operations. If he has a shortage of oil, he can speed
27 his operations up; if he has too much oil in his refinery, he
28 can slow things down. On the basis of this contract, this
29 means the contractor bidding on this will have to take this
30 into consideration.

31 The people arguing against us last week made the best

1 argument they could against bonus bidding. Mr. Clark said --
2 and whether you need to capitalize this money or not, this is
3 only fifty-one million dollars - - that this will amount to two
4 digit million dollars. That means something between ten and
5 one hundred million dollars. If this is on only fifty-one mil-
6 lion, and you were to submit this to straight bonus bidding you
7 might get two or three hundred million dollars -- under his
8 terms that means that out of the net operating profit this
9 contractor would have to pick up a like two or three hundred
10 million dollars just to cover the tax advantage that he would
11 lose because of the bonus.

12 We feel that, also, under the net profits type bid in
13 order to maintain control over the operator, he still has some
14 protection. He knows when the City and State requires him to
15 do something that it is a big chunk of the City's money going
16 into that and of the State's money, and it will be something
17 to benefit everybody, and it would be very reassuring.

18 I think that those are the main points. There are
19 many others but I believe in the interest of time that these
20 can be taken up before the staff. Thank you.

21 MR. DESMOND: We would like to close at this time with
22 delivery of these to the Commission; and, as I said to the
23 Chairman earlier, we would be glad to read these into the
24 record, but I think they would be rather boring. These are
25 the comments of the City of Long Beach on the comments of Mr.
26 Clark at the last Commission meeting and the comments on the
27 statement of Mr. L. E. Scott of Pauley Petroleum Inc. at the
28 last Commission meeting.

29 We do ask that these be read -- there are copies
30 available. We are very anxious that they be made a part of
31 the record. Both of the statements have been taken, paragraph

1 by paragraph, and answered and commented upon by the City. We
2 would like to deliver the copies at this time. Others are
3 available if they are needed.

4 MR. CRANSTON: These will be incorporated into the
5 record and I assure you they will be carefully studied. Does
6 that complete Long Beach's presentation at this point?

7 MR. DESMOND: Yes, sir.
8 *****

9 The documents referred to above are reproduced at this
10 point:

11 Subject: Comments by City of Long Beach relative to statement
12 of Mr. L. E. Scott, Pauley Petroleum Inc. to the
13 State Lands Commission Meeting 2-28-63

14 Pauley Petroleum Inc. was offered every opportunity to
15 present any suggestion or criticism of the proposed documents
16 directly to the City. City representatives would have been
17 happy to discuss and attempt to clarify any points in these con-
18 tracts. Pauley Petroleum Inc. was sent all documents and re-
19 lated data.

20 " STATEMENT OF L. E. SCOTT, Assistant to the President
21 of Pauley Petroleum Inc. objecting to the adoption
22 by this Commission of the City of Long Beach Tidelands
23 Development Program as submitted this date.

24 Pauley Petroleum Inc., Los Angeles, California, is
25 presently engaged in offshore tideland operations in the
26 State of California, Louisiana, and Mexico. This company,
27 along with its partners, has in the past few years paid to
28 the State of California an excess of 24.7 million dollars
29 for tidelands leases. We are presently engaged in the
30 development and production of these leases; therefore, we
31 appear here today as an experienced operator and one fully
cognizant of the problems involved.

We recommend that the State Lands Commission reject
the proposal that is being submitted by the City of Long
Beach for the following reasons:

1. The State Lands Commission has not been submitted
adequate and sufficient information to permit it to make
a final decision involving an oil and gas reservoir con-
taining in excess of 1½ billion barrels of oil, and
worth somewhere between 4½ and 5 billion dollars. This
is one of the world's largest known oil reserves and will,
in a very short time, represent in excess of fifty per
cent of all of the California's known oil producing
reservoirs.

1 "At the present time there are approximately 3.6 billion
2 barrels of oil known to be producible in the State of Cali-
3 fornia. The daily production in California is approxi-
4 mately 815,000 barrels a day, which is about 300,000,000
5 barrels a year. At this rate, in a little more than three
6 years, California will have depleted its oil reserves by
7 more than a billion barrels. All of the oil producers in
8 California, particularly the majors, are frantically drill-
9 ing their fee lands, inside locations which ordinarily
10 would not be drilled, in order to keep California's produc-
11 tion up. This is being done for many reasons which we will
12 go into later in this statement."

13 COMMENT:

14 The State has much more information on this reservoir than
15 they do on most of their own tideland leases at the time they
16 are put out for bid. On many State tideland leases there is no
17 reservoir information whatsoever when leased. In the Long Beach
18 tidelands area information from eight exploratory core holes, a
19 seismic survey, and production and geologic data on each end of
20 the area is available. The Conservation Committee estimated
21 California proven reserves of 3.3 billion barrels in 1941 and
22 3.6 billion barrels in 1962, even though 7 billion barrels were
23 produced in the interval between 1941-1963. Mr. Scott's esti-
24 mate of California reserves apparently is based on the falla-
25 cious assumption that no additional oil discoveries ever will be
26 made in California and that California oil producers will not
27 take advantage of secondary oil production techniques constantly
28 being developed and improved. In addition it has been reported
29 that ownership of a potential of many billion barrels of oil is
30 involved in the current legal dispute between California and the
31 Federal Government as to the extent of the State submerged lands.

"2. We object to this proposal on the grounds that, as
written, it is monopolistic in its inception, and mono-
polistic and discriminatory as planned in the final results.
This Commission should seek out, at a full public hearing,
all of the factors surrounding the preparation of these
documents, and what they really mean. We feel that the
proposal, as written, is not in the public interest of the
State of California and must, therefore, be rejected."

32 COMMENT:

These proposals are not monopolistic, and we object

1 strenuously to the implication that they were planned to be.
2 The expressed purposes, and we believe these documents achieve
3 this end, were to obtain the maximum economic return to the City
4 and State while protecting Long Beach from subsidence and de-
5 spoilment of the beaches and tideland area.

6 The City is always willing to present desired information
7 at a public hearing, but we are sure that the same information
8 can be obtained from the Lands Division and from the Attorney
9 General's office because they assisted in the preparation of
10 these documents. In addition, all phases of this proposed
11 development program were reviewed at open public meetings of
12 the Long Beach City Council before submission for final approval
13 by the State Lands Commission.

14 The Unit Agreement and Unit Operating Agreement were
15 drafted by representatives of all the working interest owners,
16 including the City, the State, the Long Beach Unified School
17 District, a property owners' association and the various oil
18 companies representing the landowners of some 10,000 parcels
19 of privately-owned property. This is the customary, logical
20 and proper way to form such unit agreements. It is the precise
21 procedure followed in the preparation of the existing unit agree-
22 ments in the Wilmington Oil Field, all of which have been
23 approved by the State Lands Commission. The form followed in
24 the other units, which is similar to this unit, has been
25 approved by the California Supreme Court.

26 On the other hand, the Field Contractor Agreement was
27 prepared by the City of Long Beach.

28 "A review of the documents submitted by the City of Long
29 Beach indicates that it is the desire of the City of Long
30 Beach, as well as some favored operators, to call for bids
31 on Tract #1 as a single parcel. Why is this monopolistic?
This will require the successful bidder, or consortium or
combine that acquires the bid on Tract #1 to obligate
itself to spend approximately 51 million dollars in

1 "recoverable bonus money, plus build up to four ten-acre
2 islands, plus drill at least forty wells in the first year
3 after completion of the first island. Reliable engineers
4 have stated it will cost a company between 90 and 100 mil-
lion dollars in initial investment to carry out the devel-
opment of Tract #1 as proposed by the City of Long Beach.

5 "It is our feeling that this tremendous investment require-
6 ment is fully intended to eliminate competition and to
7 chill the bidding for the average offshore operator. I
8 ask this Commission how many companies in the United States
9 can commit themselves to spend 100 million dollars on any
10 one project? Your attention is directed to Paragraph 23,
11 page 21, of the Field Contractor Agreement, wherein the
12 Field Contractor is not permitted to pledge or hypothecate
13 this contract without first receiving the consent of the
14 City Manager of Long Beach. Here, again, is an obvious
15 effort to eliminate reasonable size offshore operators from
16 bidding. In other words, the bidder cannot go to its bank
17 or financial institution and secure adequate capital to
18 carry on this development program without first receiving
19 the consent of the City Manager."

20 COMMENT:

21 Mr. Scott states that Pauley Petroleum with its partners
22 has given the State \$24,000,000 for offshore leases. It would
23 seem reasonable that Pauley Petroleum could organize a bidding
24 group and bid on this project and we hope the company does. Mr.
25 Scott states that the provision to require prior approval from
26 the City before allowing any assignment or hypothecation of this
27 agreement is designed to eliminate competition. This is not true.
28 This provision is a standard part of City contracts and is par-
29 ticularly necessary in a net profits contract. In the past the
30 City has approved all legitimate assignments of oil contracts,
31 production payments, etc. Never before has any company ques-
tioned such procedure. It is important to know the financial
background and operational competency of contractor. Informa-
tion concerning these factors is required of a bidder and would
be of little value if the successful bidder could then assign
the agreement to a substandard organization. The State Lands
Commission staff also deemed this provision essential and right-
fully wishes similarly to reserve approval of assignments as
provided in Paragraph 3 of Exhibit A attached to the State
Lands Commission calendar item of February 28.

1 "Reference is also made to Paragraph 32, Page 32, entitled
2 FORCE MAJEURE. Pursuant to said paragraph, an operator
3 must continue to pay the 51 million dollars over the three
4 year period, even though he is shut down by court order or
5 by injunction. Requiring an operator to make such sub-
6 stantial payments when ordered to cease production or op-
7 erations is unfair. This is another effort to make it
8 difficult for a reasonable size company to bid. How many
9 companies can continue to pay out 51 million dollars while
10 they are not permitted to drill, operate, or produce be-
11 cause of the provisions of the FORCE MAJEURE clause? To
12 make this requirement and not excuse payment while in liti-
13 gation is unthinkable. This is just another method used to
14 eliminate competition and to allow certain companies to
15 gain control of a fabulous oil reserve at a non-competitive
16 price."

17 COMMENT:

18 The purpose of the production payments was to provide
19 income to the City and State during the period when no net
20 profits are available. It is expected that under a reasonable
21 development program, net profits for payment to the City and
22 State will be available in 3 to 3½ years. If a fixed payment of
23 \$51,000,000 were required at the time of bidding, these funds
24 would be available to the City and State, without any possibil-
25 ity of avoiding capitalization of these funds for income tax
26 purposes. Pauley Petroleum Inc. is in no better position in
27 respect to any of the leases they acquired from the State if
28 litigated to a standstill, or if no oil were discovered. The
29 State still would have its \$24,000,000 bonus, and Pauley Petrol-
30 eum would be unable to operate or recover their investment. The
31 only difference with the City proposal is that the payments would
be spread over three years, and there is no possibility of not
finding oil. It certainly is not intended to eliminate competi-
tion but only to insure the City and State income during the
period when no net profits are available.

"3. Mr. Chairman, there is another major factor involved
in putting out the Long Beach property in one parcel. It
is obvious that certain oil companies desire to control all
of Tract #1 in order to monopolize and control the oil pro-
duction, oil prices and oil imports on the West Coast for
years to come.

1 "Let's look at the daily production for October 1962 of
2 many of the California operators. These figures are taken
3 from the Conservation Committee of California Oil Produc-
4 ers - Company Records of California Oil and Gas Production -
5 October 1962.

6 SUMMARY FOR OCTOBER 1962

Major Companies	Actual Production B/D
Richfield Oil Corp.	69,551
Shell Oil Company	61,513
Socony Mobil Oil Company	46,680
Standard Oil Company	143,016
Texaco, Inc.	48,818
Tidewater Oil Company	53,617
Union Oil Company	68,308
Signal Oil and Gas Co.	40,310

10 "It will be argued that the award of Tract #1 to any one
11 Operator, or group of operators, will not create a monopoly
12 of the crude oil market in the State of California. We
13 wish to point out that at the present time Richfield Oil
14 Company produces approximately 69,000 barrels of oil a day;
15 Union, 68,000; Signal, 40,000; Standard of California,
16 143,000; Texaco, 48,000; Tidewater, 53,000 barrels. If
17 any one of these companies are awarded Tract #1 under the
18 bidding procedure recommended by the City of Long Beach,
19 it would more than double their present daily production
20 in California. With the exception of Standard of Cali-
21 fornia, it would be necessary to add together the daily
22 production of several of these companies to obtain the
23 amount of oil equal to the anticipated daily production
24 from the Long Beach Harbor Tract #1, which is estimated to
25 be 150,000 barrels a day.

26 "It is my opinion that any time the daily production of a
27 major refiner is doubled, tripled, or quadrupled by virtue
28 of one bid, a very bad situation is being created which
29 will lead to the monopoly of the crude oil market on the
30 West Coast of California and of the United States as a
31 whole. At the same time, it will permit the operators to
process their own crude and exclude the purchase of crude
from other onshore and tidelands operators in California
not having refining capacity. We think this is in viola-
tion of the public interest and welfare of the State of
California, of the oil industry, and of the nation as a
whole."

32 COMMENT:

33 The amount of imports is based primarily on the historical
34 refinery through-put of domestic crude and not on production.
35 Therefore, Tract No. 1 could not give any oil companies control
36 of West Coast imports.

37 The major companies have historically produced a large
38 percentage of the oil in California and will continue to do so

1 with or without this Long Beach tract. The competition is as
2 keen between these major companies as it is with the smaller
3 independents involved.

4 The addition of Tract No. 1 production could not give "a
5 major refiner in California" the monopoly of the crude oil
6 market of the U. S. as a whole since Texas producers alone have
7 currently "shut in" more crude production than all California
8 refiners produce in California.

9 If a major refiner were to get this contract and not pur-
10 chase crude from other California producers, such crude then
11 would be available for the smaller refiners.

12 "Last week a statement appeared in the Trade Journals that
13 oil and gas exploration in the United States is at a nine-
14 teen year low. If one company, or group of major refiners
15 control this oil, a great detriment is being done to the
16 State of California and to the oil producers who operate
17 in this State. Do you think for one minute that any one of
18 these companies are going forward with aggressive explora-
19 tion and development program onshore in Northern or South-
20 ern California and look for oil when they have, by one
21 stroke of the pen, and by one preconceived contract, more
22 than doubled, tripled, or quadrupled their daily production
23 in the State of California? Why should any company continue
24 to search for oil where risks are high when they can buy it
25 from Long Beach and, at the same time gain control of pro-
26 duction, prices, and imports in this State?

27 "We must insist, Mr. Chairman, that this proposal be
28 rejected in its entirety and that the staff of the State
29 Lands Commission, the Attorney General of the State of
30 California, and representatives of the City of Long Beach,
31 be instructed to sit down and attempt to work out some
reasonable basis on which this tremendous tidelands oil
field can be put up on some equitable, fair, impartial
basis, where all operators can have a fair and equal
opportunity to bid on these lands."

32 COMMENT:

33 It is understandable that, prior to the bidding on these
34 large offshore reserves, the interested companies are looking
35 forward to this program and are not particularly active in
36 exploratory programs at the present. We believe the unsucces-
37 ful bidders will redouble their efforts to keep pace after the
38 contract is let. The Pauley Statement suggests that a reasonable

1 basis should be worked out to allow all operators to participate.
2 This would be impossible because there are 1344 independent
3 operators listed by the 1961 Conservation Committee report.

4 "4. We object to the price being paid for the crude oil
5 under the Long Beach proposal. In our opinion, it will
6 permit the sale of the Long Beach oil at a price lower
7 than is presently being required by the State of California
8 for their offshore tideland oil. Under the Long Beach
9 Agreement, the contractor will have the exclusive right to
10 take any and all oil allocated to Tract #1 by the Unit
11 Operator or, at the option of the Field Contractor, he may
12 obtain a financially responsible purchaser to purchase any
13 or all allocated oil to Tract #1 by the Unit Operator and
14 to take delivery of such oil in accordance with the Unit
15 Operating Agreement. Any contract for such purpose must
16 be approved in advance by the City Manager. You will note
17 that the State Lands Commission has no control over the
18 ultimate prices paid for the crude oil under this proposal,
19 nor has the commission any way to force the oil to be sold
20 to anyone other than the Field Contractor or his designated
21 purchaser. This is the key to the whole monopolistic plan."

12 COMMENT:

13
14
15 The pricing provisions of the proposed contract will result
16 in a higher over-all return to the City and State. The pricing
17 procedure for all the crude oil assigned to Tract #1 is fixed by
18 the terms of the Field Contractor Agreement. The requirement of
19 City Manager approval of oil purchase contracts is to insure the
20 financial responsibility of the purchasers. Although the State
21 Lands Commission does not have the right to force the oil to be
22 sold to anyone other than the Field Contractor, neither does
23 the Commission have the obligation to find a purchaser for the
24 oil in times when an oversupply of oil exists.

25 "The Long Beach Contract provides that the value of the oil
26 shall be on the basis of the price equal to the average of
27 the price to be posted and paid by continuing purchasers of
28 substantial quantities of crude oil in the field for oil of
29 like gravity on the day such oil is run into Field Contrac-
30 tor's tanks and/or pipelines. (Page 9, line 17, of the
31 Field Contractor's Agreement):

32 'Except as otherwise herein provided, oil allocated to
33 Tract No. 1 shall be valued on the basis of a price equal
34 to the average of the prices posted and paid by continuing
35 purchasers of substantial quantities of crude oil in the
36 Field for oil of like gravity on the day such oil is run
37 into Field Contractor's or purchaser's tanks and/or
38 pipelines. "Continuing purchasers of substantial quantities

1 "of crude oil" as used in this section, shall mean pur-
2 chasers who have, during the preceding twelve (12) calendar
3 months, purchased an average of at least three thousand
4 (3,000) barrels of crude oil per day. If no such purchaser
5 posts and pays a price in the Field on said day for oil of
6 like gravity, or if the only purchaser or purchasers who so
7 post and pay a price are the Field Contractor or one or
8 more of the Persons comprising the Field Contractor, then
9 the price hereunder shall be the arithmetic average of such
10 prices as may be posted on said day for oil of like gravity
11 by Standard Oil Company of California, Union Oil Company of
12 California and Socony Mobil Oil Company, Inc., or their
13 respective successors, in the following fields: Wilmington,
14 Huntington Beach, Signal Hill and Inglewood. The above
15 price shall be computed to the closest tenth of each degree
16 of gravity and the closest tenth of a cent per barrel for
17 the pricing of each delivery of crude oil by applying the
18 price for each full degree of gravity to the even gravity
19 and interpolating upward for each tenth degree of gravity.
20 If Field Contractor, or one of the persons comprising the
21 Field Contractor, purchases oil from others in the Field,
22 the price of the oil taken by such person shall not be
23 less than the price paid by such person to others for oil
24 of like gravity in the Field."

25 COMMENT:

26 The precedent of using the average posted price for deter-
27 mining the market value of oil was established in the other
28 Wilmington Units. All these other units approved by the State
29 Lands Commission provide that the market value of oil will be
30 "established by the average of the prices posted by Standard Oil
31 Company of California, Socony Mobil Oil Company, Inc., Texaco,
32 Inc., and Union Oil Company of California....." Furthermore,
33 this type of Unit was specifically approved by the California
34 Supreme Court in the case of Long Beach versus Vickers.

35 Both existing Long Beach tidelands oil contracts provide
36 for oil payment on the average posted price. These contracts
37 are generally regarded as providing the greatest financial re-
38 turn to the landowner of any contract in the history of the U.S.
39 oil industry.

40 "What does this pricing formula mean insofar as Long Beach
41 and the State of California is concerned and how does it
42 affect other operators in the State of California?

43 "This company has recently acquired an oil and gas lease
44 known as Parcel 9A, and referred to as State Lease 2933.1,

1 "in the Santa Barbara area. The State Lands Commission,
2 in its lease form, provides as follows: (Paragraph 3, Line
3 7, Page 3)

4 'The Lessee agrees to account for and pay to the State
5 in money as royalty on oil a percentage, determined in
6 accordance with the schedule attached hereto, marked
7 Exhibit B, and by reference made a part hereof, of the
8 current market price at the well of, and of any premium
9 or bonus paid on, all oil production removed or sold from
10 the leased lands. The current market price at the well
11 shall be determined by the State and shall not be less than
12 the highest price in the nearest field in the State of
13 California at which oil of like gravity and quality is be-
14 ing sold in substantial quantities, subject to an appro-
15 priate allowance for the cost of delivery of such oil to
16 onshore storage and transportation facilities. Said money
17 royalty on oil shall be due and payable not later than the
18 twenty-fifth day of the calendar month following the
19 calendar month in which the oil is produced.'

20 "Under the Long Beach contract the Operator is going to
21 bid net profits on Tract #1 and will receive the average
22 posted price paid by certain companies. The companies that
23 acquire other oil and gas leases offshore throughout the
24 State of California (such as we did under Parcel 9A in the
25 Santa Barbara Channel area), must pay the State of Cali-
26 fornia the highest price paid for oil. This creates an
27 unfair competitive situation since the operators who own
28 other tideland oil and gas leases are required to sell oil
29 on parcels of tidelands lying outside of the Long Beach
30 area at the highest price. It means that the companies
31 who control the oil in the Long Beach area are going to
buy their oil cheaper than operators of other State-owned
leases. How can an independent producer compete with this
sort of discriminatory pricing? It seems to me that we
must have one pricing formula for all of California Tide-
lands. If we do not, we will have a situation where oil
from Tracts #1 and #2 are being sold cheaper and making
less profit for the State of California and the City of
Long Beach than the State is making from other tideland
parcels under their present pricing formula."

32
33 COMMENT:

34 The State lease form differs from the proposed Field Con-
35 tractor Agreement and thus one cannot compare the pricing pro-
36 visions of the two without taking into consideration all aspects
37 of each form of agreement. For example, State leases can be
38 quitclaimed at any time thus relieving the operator of the
39 effect of any unrealistic high oil price. In addition, only
40 the State royalty share of the oil is subject to the pricing
41 provision. This is normally a relatively small percentage of

1 the oil.

2 The State Leasing provision requires the crude oil price to
3 be the current market price, defined as "not less than the high-
4 est price in the nearest field in the State of California at
5 which oil of like gravity and quality is being sold in substan-
6 tial quantities, subject to an appropriate allowance for the
7 cost of delivery of such oil to onshore storage and transporta-
8 tion facilities." This does not mean the "highest posted" price
9 at the well. The use of such qualifying terms could cause con-
10 siderable misunderstanding and lead to possible law suits.

11 "We are all aware of the situation which existed in Cali-
12 fornia a short time ago where one company posted a price
13 for oil of 40¢ a barrel less than one of the other big
14 producers. If there is a 40¢ differential in the price of
15 crude oil, then the average price received by Long Beach
16 would be 20¢ a barrel less than the highest price paid for
17 the crude by one of the major purchasers. What does this
18 really mean, gentlemen? Let's take a look at it. It
19 means that any company posting prices in any one of the
20 fields set forth in the Long Beach contract can either
21 lower or raise the price, like a window shade in a house,
22 in those areas; or raise or lower the posted price for
23 crude under Tract #1, and thereby manipulate the price and
24 the profit the State of California and the City of Long
25 Beach and the Field Contractor (if it happens to be an
26 independent producer), are receiving from Tract #1."

27 COMMENT:

28 Price manipulation has never been and is not expected to be
29 a problem in the Wilmington Oil Field. The purchaser, if he
30 posts, will have only one of the prices used in the average,
31 and the City feels that antitrust laws are adequate to protect
the City and State.

32 A tabulation of every posted price for 20 degree API crude
33 in the Wilmington Oil Field during the past 12 years by the
34 three companies currently posting indicates that the difference
35 between using the average posted price and using the highest
36 posted price for the production in the L.B.O.D. parcels would
37 have been approximately 16 hundredths of a cent per barrel.
38 Compare this figure with the 3 cents per barrel gain referred
39 to below.

1 "What does a company have to lose that happens to be the
2 Field Contractor and also the purchaser and the refiner?
3 The City of Long Beach and the State of California will
4 have a lower price for their crude and will be receiving
5 less money than they would ordinarily. The City of Long
6 Beach and the State of California will receive less net
7 profits from Tract #1, but, at the same time, if the Field
8 Contractor happens to be the purchaser AND the refiner, it
9 will pick up that additional profit in his manufacturing
10 profits and would actually be given a windfall by manipula-
11 tion of the posted price."

12 COMMENT:

13 We disagree that the City and State would be receiving less
14 money. This proposed contract requires payment on the tenth
15 degree gravity. This will average about three cents per barrel
16 more than an even degree gravity payment.

17 An adverse effect on the over-all bid would result if the
18 Field Contractor were to be put at the mercy of any small opera-
19 tor who for short periods of time paid an unrealistic price for
20 oil to insure immediate refinery needs. The short term pur-
21 chaser takes advantage of depressed prices when the market is
22 oversupplied and pays a premium when oil is in demand. A long
23 term contract should give a true value to the oil without these
24 short term fluctuations caused by the immediate needs of any
25 purchaser. The bidder need not assume the risks arising from
26 an unrealistic high price, and therefore his bid should be more
27 favorable as far as financial return to the City and State is
28 concerned.

29 "This Agreement, as now submitted by Long Beach to this
30 Commission, gives the exclusive control of this 1.6 billion
31 barrels of oil to the Field Contractor or to his designated
32 purchaser. It does not give the City of Long Beach, nor
33 the State of California, any protection whatsoever in order
34 to dispose of this crude outside the contract. The con-
35 tract is silent on whether or not the Field Contractor
36 must buy the oil even though he cannot sell it. The draft
37 as submitted to the State Lands Commission staff in Septem-
38 ber 1962 had a firm obligation on the part of the contrac-
39 tor to buy the oil or to dispose of it. That language has
40 now been changed insofar as oil is concerned. It is re-
41 quested that the companies who wrote this contract explain
42 whether or not it was the intention of the drafters of
43 same to force the contractors to buy. There must be some

1 "provision in this contract for the disposal of crude in
2 the event the Field Contractor cannot find a market. The
3 Field Contractor is required to buy all natural gasoline
4 extracted from wet gas. We think this provision is unfair
5 because it places an impossible burden on the contractor
6 when he doesn't have a market. This is just another device
7 to eliminate competition by placing an onerous market pro-
8 vision upon operators who cannot market large quantities
9 of natural gasoline."

6 COMMENT:

7 The proposed Field Contractor Agreement requires the suc-
8 cessful bidder to pay the working interest account for all oil
9 assigned to Tract No. 1; thus, the City and State have no worries
10 about disposing of the oil outside of the contract. The contract
11 which was drafted by the City and not by any company or compan-
12 ies, still contains this obligation on the contractor to pay for
13 all of such oil. The present language is the result of a sug-
14 gestion by the Attorney General's Office.

15 The field contract does require the successful bidder to
16 pay for the natural gasoline. This may be viewed as an asset
17 by some bidders while others may view it as a liability. They
18 will bid accordingly. We feel that private enterprise can bet-
19 ter market this gasoline than the City or State, especially in
20 times of distress.

21 "No one company can agree to buy all of this oil unless
22 there is a market. How many companies can actually absorb
23 75,000 to 150,000 barrels of oil a day in their refinery?
24 To my knowledge, none of them. The only way this could be
25 done is to cut off purchases and stop buying oil from the
26 balance of the producers in the State of California. We
27 submit to this Commission this is exactly the plan of ac-
28 tion to be taken by certain companies in the event they
29 can monopolize the Long Beach Oil Field.

26 "It is submitted to this Commission this is exactly what
27 will happen in the event you permit this complete parcel
28 of land to be put into the hands of one group of companies
29 having control of the pricing and the refining processes in
30 this State. They plan to reduce their purchases from
31 independent producers throughout the State of California,
which, in turn, will result in the reduction of the posted
price in all fields because the independent contractor
will be forced to sell his oil at lower prices.

31 "Once you have created a soft market for crude oil in
California, then the posted price will be lowered through

1 "manipulation by the refiners and thereby the State of Cali-
2 fornia, the City of Long Beach, and the independent produc-
3 ers throughout the State will receive less money for their
4 oil - - not only on the Long Beach parcel, but on other
California tidelands and on other oil fields owned by the
cities of this State. This is a monopolistic plan in the
crudest form."

5 COMMENT:

6 Inasmuch as California does not produce enough crude to
7 meet its demands, the additional Long Beach Unit crude can be ab-
8 sorbed either through increased demand or by a reduction in the
9 amounts of imported foreign crude. There would be no net effect
10 on the total market demand for California crude whether the oil
11 is taken by a single refiner or split among a large group of
12 refiners.

13 "Since the preparation of my presentation, the staff has
14 suggested that small refiners be permitted to purchase a
15 portion of the crude under competitive bidding every six
16 months. What this means is that 'hard-put' small refiners
17 would have to pay the highest price for his crude under
sealed bids while the majors, who tie up the balance of the
Long Beach crude, would pay the 'average posted price'
which they fix themselves. This merely accentuates the
unfairness of this whole contract."

18 COMMENT:

19 This procedure of putting up a portion of the crude for
20 competitive bids each six months was suggested by the small re-
21 finers themselves. The pricing procedures under long term con-
22 tracts by necessity vary from prices paid by short term
23 purchasers.

24 "It also means that, unlike the major refiners, the small
25 refiner cannot have a long range supply of crude in order
to plan capital investments and arrange for imports."

26 COMMENT:

27 There is a long range supply of oil now available from
28 small producers if these refiners are willing to execute long
29 term contracts.

30 "If the small refiners are required to bid for crude, then
31 we recommend that all of the crude under Tract #1 be put
out for bid on an annual basis. In this manner all

1 "companies - large and small - would be treated alike.
2 Some may argue that the State and City should not take the
3 risk and gamble on the oil market. The City and State are
4 actually assuming all of the risks under a 'net profits'
5 arrangement so a little more risk should not matter. The
6 only people who can lose would be the citizens of California"

7 COMMENT:

8 The most valuable single feature of this contract, from the
9 standpoint of attracting the highest bid for the State and the
10 City, is the long range supply of oil available to the successful
11 bidder. Conversely, the greatest risk possible to the State and
12 the City in obtaining the maximum economic return would be in-
13 volved in gambling on the City's ability to market the oil on a
14 short term basis. There have been times when a large percentage
15 of producers in Wilmington who did not have long term contracts
16 either were forced to curtail production or to sell their oil at
17 fifty cents below the average posted price. On the other hand,
18 under the proposed contract, the State and City are guaranteed
19 profits based on average posted price.

20 The statement that the City and State are assuming all the
21 risks under a net profits contract is absolutely false. Under
22 the Field Contractor Agreement, the City and State will partici-
23 pate in the large profits, which under other types of contracts
24 would be taken entirely by the contractor. Instead of the City
25 and State assuming any risk, the Field Contractor is required
26 to advance all monies for development as well as paying the \$51
27 million in production payments.

28 "5. Mr. Chairman, the State Lands Commission has, since
29 1955, taken the position and adopted a policy of putting up
30 alternate, or every third, parcel in even the most risky
31 wildcat areas. Also, this Commission has limited the size
of parcels depending upon their potential productivity.
This Commission has always endeavored to cut up parcels in
such a manner so as to keep a complete geologic structure
of any major size from being acquired by any one company
or group. We think this is a prudent policy and strongly
recommend that you continue to follow this policy at Long
Beach. Your attention is directed to the State Public
Resources Code, Section 6871.4, which limits the size of

1 "the Tideland parcels to 5760 acres. It reads as follows:

2 SIZE OF PARCELS TO BE LEASED:

3 The Commission may divide the lands within the area
4 proposed to be leased into parcels of convenient size and
5 shape and shall prepare a form of lease or leases therefor
6 embracing not to exceed 5,760 acres in any one lease.
(added by Sts 1955 ch 1724, 18; amended by Stats 1957
ch 2166.5)

7 "The Federal regulations for federally-owned tidelands are
8 similar.

9 "Why did the Legislature of the State of California and the
10 Federal authorities deem it advisable to limit the size of
11 even wildcat parcels? It is very easy to understand in
12 that they desired to prevent the monopoly of oil fields by
any one company or group. It is submitted that the Long
Beach tract of land must be divided into several parcels
and put out to bid, one at a time, in order to gain the
full benefit of free competitive bids."

13 COMMENT:

14 Neither the State Lands Commission nor the Federal Govern-
15 ment has leased tidelands in an area that has been damaged by
16 subsidence. It is imperative that the City maintain full con-
17 trol of these operations as a safeguard against further subsid-
18 ence damage in this area. The only realistic way to accomplish
19 this is to develop this offshore area as a single tract. This
20 was realized by the electorate of the City of Long Beach when
21 they passed the drilling ordinance that required this area to be
22 developed as a single tract.

23 In answer to the Pauley statement as to the State leasing
24 policy of limiting the area to a maximum of 5,760 acres, Tract
25 No. 1 contains approximately 4,500 acres.

26 "6. We would also like to call the attention of this Com-
27 mission to the provisions in the Field Contract Agreement
28 wherein the City of Long Beach and the State of California
29 would pay the Operator 3.75% interest on any advance bonus
30 payments. This is the first time in my experience that a
31 landowner has been required to pay the Oil Operator inter-
est on the money which the Oil Operator paid the landowner.
Here, again, is another example of how some companies are
trying to monopolize this tract by raising the bid price
so high it cuts out the competition. The State of Cali-
fornia, and certainly the City of Long Beach, can borrow

1 "money at much less than 3.75% interest. We think this is
2 against the best interests of the State of California and
its citizens. We think this provision should be stricken."

3 COMMENT:

4 The provision to allow interest on the production payment
5 account is one of the features incorporated to enhance the
6 bidder's opportunity to avoid capitalization of this payment.
7 The rate selected was the approximate interest yield for Federal
8 securities maturing at the approximate time the production pay-
9 ment account would be repaid. No matter what interest rate is
10 used, it will be considered by all companies in submitting their
11 bids. This would be fair to everyone. If no interest were al-
12 lowed, then the bids to the State and City naturally would be
13 lowered to the extent of this factor.

14 "7. It is also our feeling that the money payments set
15 forth in the Field Contract Agreement are bonus payments
16 and should be made payable 25% at the time the Operator
17 bids and 25% on the anniversary date for the next three
18 succeeding years. We do not think the City Manager of Long
19 Beach should be given the discretion to call or not to call
for these moneys. If the City of Long Beach and the State
of California are entitled to the money, then they should
receive it at a specified time. This will create no hard-
ship on industry members in that it will permit them to
arrange their financial payments pursuant to contract.

20 "A question has been raised as to what kind of payments
21 these are. Are they advance royalty payments or are they,
22 in fact, recoverable bonus payments which must be capital-
23 ized. If they are advance royalty payments, then they can
24 be written off in the year payment is made. I understand
25 that some competent tax authorities state that these are
bonus payments and must be capitalized. If this is the
case, it could be disastrous. This is one of the most im-
portant and vital points that must be resolved and results
made known to all bidders prior to the call for bid.

26 "The question of whether or not these payments are expense
27 items or capital items will materially affect the amount of
the bid of any company -- regardless of whether or not it
be net profit, bonus, royalty, or otherwise.

28 "It is strongly recommended that this Commission instruct
29 the staff of the State Lands Commission and the Attorney
30 General to secure a ruling from the Internal Revenue
31 Service on final drafts of this proposed contract as to how
these and other expenditures are to be treated taxwise.
It may be that one or more of the companies involved in
the preparation of these contracts may have already

1 "secured a ruling from the Internal Revenue Service. If
2 this is the case, I suggest that they come forward and
3 advise the Commission in open hearing as to the results
4 of their findings and furnish the staff with a copy of
the ruling. This would save considerable time. If no
one has received such a ruling, then one must be received
prior to the bidding date."

5 COMMENT:

6 It should be made clear that income to the City and State
7 is not affected by whether or not the production payment must
8 actually be capitalized, but by whether or not, in making his
9 bid, the Field Contractor thinks that it must be capitalized.
10 It is in the best interest of the City and State in obtaining
11 the maximum bid to enable those companies who think this produc-
12 tion payment does not need to be capitalized to bid accordingly.
13 The provisions regarding the production payments have been
14 drafted to enhance the chances of bidders to obtain a favorable
15 Internal Revenue Service ruling if they think it advisable to
16 seek one.

17 "8. It should be pointed out to the Commission that if
18 Tract #1 is permitted to be controlled, as one parcel,
19 by major domestic refiners, it will vest control in these
20 domestic refiners of the import of foreign oil into the
21 State of California and to the West Coast. WHY IS THIS
22 THE CASE? It is easily understood since the foreign im-
23 port quotas are determined by the amount of domestic oil
24 put through domestic refineries. For example: If a com-
25 pany has a refinery with an input of 150,000 barrels of oil
26 a day, it will be permitted to bring in foreign import of
27 10.5% of the domestic refined input. Therefore, if a
28 company, or group of companies, should control this esti-
mated 150,000 barrels a day production from Long Beach,
regardless of whether or not they can make a nickel out of
it, it will allow these companies to bring in an excess of
15,000 barrels of crude a day to the West Coast. This
will bring in more cheap oil and ultimately reduce the
posted price. It is recommended that the State Lands Com-
mission invite major oil importers to come forward, in
public hearing, and explain the import quota and how much
they make by virtue of being able to increase their imports
by gaining control of this Long Beach oil."

29 COMMENT:

30 Our understanding is that the import quota from District V
31 is based on the historic refinery through-put of domestic crude.
Additional production does not give a refining company additional

1 imports. The effect on the import quota of a refining company
2 will be the same regardless of whether or not it produces this
3 oil.

4 "9. We understand it is anticipated that the operators
5 will have to bid on this Long Beach proposal within a
6 very short time after the Commission approves same. I
7 have not gone into the many questions we have regarding
8 this contract as submitted today. It would take hours to
9 set forth the various and sundry problems that must be
10 resolved before any company can bid on these parcels.
11 Regardless of what this Commission does today, or some
12 time in the future, it is strongly recommended that you
13 allow at least 270 days between the call for bids and the
14 date bids are filed. It is also recommended that you
15 instruct the staff to hold public hearings on the form of
16 the proposed contract (as was done in May 1958) in order
17 that all members of the oil industry may make a critique
18 and learn what the contract really says and means. The
19 present contract is difficult to understand interpret."

13 COMMENT:

14 Pauley Petroleum Inc. has had most of these documents for
15 nearly five months. If the company found any items difficult
16 to understand or interpret, it did not so state prior to Febru-
17 ary 28, nor did it seek understanding or interpretation. All
18 meetings before the City Council and the Oil Committee of the
19 City Council concerning these documents were open to the public
20 and many companies availed themselves of the opportunities to
21 become informed.

22 "A representative of one of the companies involved in the
23 preparation of this contract summed up the contract pro-
24 posal as follows: 'It is a hodge-podge of ideas to be
25 submitted to the State Lands Commission for approval.' I
26 think no one could possibly describe this contract any
27 better.

28 "Mr. Chairman, in conclusion, we would like to state that
29 we do not wish to oppose a program unless we are able to
30 offer a constructive way of doing it better. We believe
31 we have several alternatives in mind which would permit
the State Lands Commission to put Tract #1 and Tract #2
out on an equitable, fair, competitive basis which will
permit all companies to participate. At the same time,
it will eliminate any possibility of monopoly or cartel
arrangement which would put the control of the oil business
into the hands of a few operators and refiners in
this State.

1 COMMENT:

2 The Field Contractor Agreement was drafted by the City as
3 previously pointed out. However, the suggestions of any com-
4 panies which desired to submit them were solicited by the City.
5 Attached are copies of letters sent to approximately 65 com-
6 panies throughout the State. Also attached is a list of these
7 companies which we kept informed and from which we solicited
8 suggestions. The City believes that the proposed contract does
9 present an equitable, fair and competitive basis for companies
10 that are qualified to join and bid on this project.

11 "(a) It is our recommendation that the State Lands Commis-
12 sion put Tract #2 up for bid immediately, using the old
13 form of lease and either calling for a cash bonus bid with
14 a fixed royalty formula; OR, if the Commission prefers,
15 put up Tract #2 for bid on the basis of a fixed cash bonus
16 payment and let the operators bid on a royalty basis.

17 "On February 25, 1963, this company formally requested that
18 Tract #2 be leased pursuant to present existing laws; a
19 copy of our request is hereby introduced as evidence as
20 part of this presentation.

21 "Under the present statutes, the State Lands Commission
22 cannot put Tract #2 under the Long Beach formula because
23 it is not permitted by the statutes. We think ample
24 language can be written into the lease contract which
25 would require the successful operator to enter into a
26 reasonable and equitable unit agreement with the Long Beach
27 people pursuant to presently existing statutory authority.

28 "We have just reviewed the recently introduced Senate Bill
29 #298 which permits the State of California, as Oil Opera-
30 tor, to unitize Tract #2 with the Tidelands in Long Beach.
31 We are strongly opposed to this bill since it not only
permits the unitization of Tract #2 with the Tidelands in
Long Beach, but it socializes the oil business insofar as
the California tidelands are concerned and puts it under
State ownership and State control. This is against our
free enterprise system of government in this nation, and
we oppose it completely and absolutely. The bill has also
been referred to by some as a 'two-page Proposition Four.'"

32 COMMENT:

33 The Alamitos Beach State Park Tract #2 is not now under
34 consideration. However, the Unit Agreement does allow the State
35 to bring Tract #2 in as a working interest owner or to lease
36 Tract #2 as in any other area.

(b)

"It is recommended that the State Lands Commission and The City of Long Beach cut Tract #1 into several parcels and put them out for bid, one at a time. This could be done even though the bids are received only two to three hours apart. It would permit reasonable size oil companies to participate in these offshore bids and, at the same time, give the State of California and the City of Long Beach the best possible bids.

"It is also recommended that the City of Long Beach and the State of California seriously consider fixing the royalty and/or net profits which they want to secure and let the companies bid on a cash payment, payable over a three-year period, with 25% of the cash payment accompanying the bid. Cash bidding has been used by the State Lands Commission for the past seven years and has been eminently successful. One condition of the bid could be that one of the parcels carved out of Tract #1 would be designated as Operator-Field Contractor parcel and the other parcels could be designated as Non-Operating Field Contractor, or the Operator could be chosen by lot upon award of contract on all parcels. I am fully aware of the provision intentionally placed in the City ordinance which was passed by the voters of Long Beach last year requiring the operation to be in a single tract. We believe this problem can be taken care of very easily in a properly drawn document. If it cannot, then the State Lands Commission should, if its sovereignty is subordinate to the City of Long Beach, reject this proposal until it is resubmitted to the voters which would permit more than one company, or more than one group of companies, to participate in Tract #1."

COMMENT:

Physically splitting the offshore area into several operational parcels is completely unacceptable from the standpoint of subsidence control. The continual supervision, coordination and arbitration between operators that would be required to insure adequate protection against subsidence in this very complex geologic area would be extremely costly. The duplication of operations and personnel required by the several contractors also would add greatly to the cost of operations. It probably would require a change in the City drilling ordinance. Furthermore, it offers no advantages that cannot be obtained by other means.

It is suggested by Pauley that Tract #1 could be split into parcels but operated by one contractor under the terms of the unit agreement. Although less objectionable from the standpoint of subsidence control, and possible under the City drilling

1 ordinance, this plan also has disadvantages. It seriously com-
2 plicates the determination of equities. Additional City person-
3 nel would be required for the coordination of the probably
4 divergent interests of the various contractors. The bid would
5 suffer because of the uncertainty involved in dealing with un-
6 known partners and because of the fact that no bidder would have
7 advance knowledge of the operational and technical ability of
8 the Field Contractor. Again this plan offers no advantages
9 which are not available under the alternate proposals discussed
10 later.

11 Earlier in his statement, Mr. Scott stated that under the
12 Long Beach proposal a successful bidder would be required to
13 commit \$100 million, to which he objected vigorously. Now he
14 suggests that it would be entirely feasible to split Tract #1
15 in parcels and offer it for bonus bidding, for which he thinks
16 the bonus bids might be from \$350 to \$450 million (Transcript,
17 State Lands Commission meeting, February 28, 1963, Page 117,
18 line 16). In addition to the bonus, of course, his estimated
19 \$50 million in initial investment would be required of the suc-
20 cessful bidders. We submit that if no company can risk \$100
21 million on our proposal, companies cannot risk \$400 million to
22 \$500 million under Mr. Scott's proposal.

23 Without in any way attempting to evaluate the many factors
24 that must be considered to properly equate the monetary return
25 from different leases, there are no major State leases that have
26 a return equivalent to 67% straight royalty. Long Beach has one.
27 In considering Mr. Scott's request that the State exercise its
28 sovereignty to require the area to be split into parcels, it
29 should be realized that the people of Long Beach voted to re-
30 quire this area to be developed as a single tract as a reason-
31 able safeguard in the program to prevent subsidence.

1 "It is very interesting to note that unit area has about
2 ninety parcels on shore that are owned by separate com-
3 panies and individuals. You also have Tract #2 owned by
4 the State of California. This agreement very easily takes
5 care of the unitization of this ninety-one parcels. If
6 ninety-one divided interest parcels can be unitized, then
7 we see no reason why you cannot make it one hundred parcels,
8 or one hundred and one, or one hundred and two.

9 "It is imperative that the State permit participation by
10 all operators in the State of California, and, at the same
11 time, assure the greatest return to the City and to the
12 State."

13 COMMENT:

14 Our objectives are to produce the highest economic return
15 for the City and the State and to protect the City against sub-
16 sidence. Neither of these objectives can be achieved if we
17 endeavor to split the area into parcels small enough to allow
18 all 1,344 California operators to participate. It is impossible
19 to satisfy all operators and at the same time best protect the
20 interests of the City and State.

21 "(c) In the event the Commission does not want to split
22 these parcels up into separate divided tracts, then it is
23 suggested that they be split into undivided interests and
24 put out to bid, one interest at a time. We suggest that one
25 interest be for 30%; one interest for 20%; three interests
26 of 10% each; and four interests of 5% each. The contract
27 should designate the company winning the 30% bid as operat-
28 ing Field Contractor. All other undivided participants in
29 Tract #1 would be designated as Non-Operating Field Con-
30 tractors. This would permit the smallest to the largest
31 company to participate on an undivided basis, assume their
proportionate share of the risk, cost and expense, and re-
ceive their proportionate share of the profits. At the
same time, it would permit the City and State to secure
the best possible bids. This was anticipated by the City
of Long Beach at the time they drew the Field Contractor
Agreement since this agreement provides that there may be
more than one Field Contractor."

32 COMMENT:

33 The suggestion of splitting Tract No. 1 into biddable un-
34 divided interests is operationally similar to the proposal by
35 the City. The main operational disadvantages would be the added
36 City staff and State personnel required to coordinate the opera-
37 tions and the loss occasioned by the inevitable compromises

1 among the large number of divergent interests. All indications
2 are that no single company will bid on this project alone. The
3 charge of monopoly is not satisfied by the letting of the bid
4 area in parcels, because a company or group could win all parcels.
5 It should be noted that where the Pauley Statement refers to a
6 5% interest, there are only 18 of the aforementioned 1344 pro-
7 ducers who produce such quantities as would amount to 5% of the
8 estimated daily production from Tract No. 1.

9 The main difference between this foregoing suggestion and
10 the proposed Field Contractor Agreement is that the City would
11 allow the companies to follow the processes of free enterprise
12 and select their partners and the terms of the agreement that
13 bind them together. The undivided interest proposal would force
14 companies together with unknown partners under a contract formed
15 by governmental bidding procedures.

16 For the following reasons, the City proposal is superior
17 and will result in a greater income to the City and State:

18 1. Advance knowledge and confidence in the technical abil-
19 ity and operational know-how of the field operator by the part-
20 ners in the combine will result in a better bid.

21 2. The flexibility in forming a bidding group to meet the
22 particular needs of the various partners will result in a more
23 favorable bid. As an example, a group could be set up whereby
24 one partner conducted the operations, took 20% of the oil, put
25 up 10% of the capital and obtained X percent of the operational
26 profit. Another variation could allow one partner to take 5% of
27 the oil in the initial stages and 40% after ten years. The
28 opportunity to change these percentages as operations proceed
29 could also be extremely valuable.

30 3. An advance voluntary agreement prescribing operational
31 procedures among partners and presenting a unified plan to the

1 City and State will be more assuring to bidders than being at
2 the mercy of unknown partners and operators.

3 4. It will be far more economic for the City and State to
4 deal with one identity rather than several.

5 5. The advantage of operating the property, including the
6 3% overhead allowance, would be reflected in only one segment
7 under the undivided interest bid, while it would be favorably
8 reflected in the whole bid as proposed by the City.

9 6. A bid on the whole by a group of companies formed under
10 their own terms will be superior to that of individual companies
11 bidding on undivided interests. Since the various groups have
12 but one chance they will exert more effort to produce the best
13 bid. This method will minimize the possibility of collusion in-
14 volved in multiple parcel or undivided interest bidding.

15 "It is suggested that the State set the net profits and/or
16 royalties and receive bids on a cash bonus payment, payable
17 over the three year period with 25% paid at the time of bid.
18 The bonus payment should be free and clear of any interest
19 charges but would be recoverable, by the successful bidder,
20 out of their proportionate share of their oil in the same
21 way they would recover their proportionate share of the
22 cost in the event it were a net profits bid. Here, again,
23 I see no reason why undivided interest owners should not
24 bid on a net profits formula if the State so desires. The
25 State and City could fix the amount of cash bonus they want
26 and let each bidder bid on a net profit or royalty basis."

21 COMMENT:

22 These proposals by Mr. Scott are merely variations of his
23 previous proposals which we already have answered. Bonus bidding
24 on semi-proven reserves will inevitably sacrifice maximum ulti-
25 mate return for a lesser though more immediate financial gain.

26 "(d) It is strongly recommended that the Commission con-
27 sider receiving bids where a landowner's free royalty is
28 fixed, plus a per cent of the net profits, and call for
29 bids on a cash payment basis set forth in paragraph (c)
30 above. The State is in dire need of immediate cash and
31 receiving cash bids can generate hundreds of millions of
dollars if the parcel is cut up into reasonable sizes.

"The State and City might also consider a type of contract
that fixes a free landowner's royalty and percentage of

1 "net profits and have the companies bid on the cash bonus
2 basis. The bonus would be recovered the same as set forth
3 above; or if the State and City prefers, they could set the
4 amount of bonus desired and the amount of net profits de-
sired and let each operator bid on the free royalty, or any
combination, under this formula."

5 COMMENT:

6 Even if the State of California were in dire need of imme-
7 diate cash, we should not forget long range obligations to the
8 future of California. The State of California can best be served
9 by assuring the maximum ultimate financial return over the entire
10 life of this field. Furthermore, because of the City control
11 that must be sustained to guard against future subsidence in the
12 area, a fixed royalty contract would result in a substantially
13 inferior bid.

14 "In conclusion, Mr. Chairman, we recommend that the State
15 of California reject the proposal as submitted and remand
16 it to the staff of the State Lands Commission and to the
17 City of Long Beach to work out a formula and contract which
will permit Tract #1 to be divided into numerous parcels
where each operator can have a fair and equitable opportuni-
ty to win a bid under a free, competitive situation.

18 "In the event the State of California and the City of Long
19 Beach cannot reach an equitable agreement permitting free,
20 competitive bidding by more than one company or group of
21 companies, then it is recommended that the State Lands Com-
22 mission refuse to approve any bidding arrangements which
would vest title to Tract #1 in one operator, or one group
of operators, and refer this matter to the State Legislature
in order that legislation may be passed to accomplish this
purpose.

23 "There are many other problems which time does not permit
24 us to discuss completely and we hope the Commission will go
into the following points at a later date:

- 25 1. Ad valorem and other taxes;"

26 COMMENT:

27 Although we appreciate the industry's concern over taxes,
28 we submit that consideration of the tax question is not relevant
29 to consideration of this contract. A net profits type of con-
30 tract minimizes the risk to bidders on the tax issue and there-
31 fore their bids should bring greater financial return to the
State and City.

1 "2. Question of why City of Long Beach should reimburse
2 pre-unit expenses of onshore operators;"

3 COMMENT:

4 The only pre-unit expense that would be reimbursed to the
5 onshore participants is for a share of the printing of the unit
6 documents (about \$20,000). On the other hand, the City and
7 State will receive reimbursement of the cost of the core hole
8 drilling program which already has been completed by the City
9 at a cost of about \$600,000.

10 "3. Advisability of Unit Operator's authority to settle
11 claims up to \$250,000 without prior consent."

12 COMMENT:

13 Under the terms of the unit agreements, the City as Unit
14 Operator does have authority to settle claims up to \$250,000
15 without the prior consent of the onshore participants. Such
16 participants approved this provision.

17 "4. Does the onshore operator have a veto of bids on
18 Tract #1 by refusing to commit onshore parcels to the
19 Unit;"

20 COMMENT:

21 Over 60% of the onshore operating interests have already
22 expressed in writing their desire to execute the Unit Agreement
23 if approved by the State Lands Commission. Such execution will
24 take place prior to the opening of the bids. We request that
25 the State Lands Commission, as a condition of approval of the
26 contract before it, require execution by the necessary 60%
27 within a specified period of time.

28 "5. Legality and advisability of including the Long
29 Beach Oil and Development Company lands in the Unit
30 by consent of operators rather than through competitive
31 sealed bids."

32 COMMENT:

33 Since the Long Beach Oil Development Company lands are not
contiguous with this area, they cannot be included in this unit..

1 The Unit Agreement in no way would allow the City to extend the
2 term of any existing contract or enter into another contract
3 without competitive bids. Competitive bidding is a requirement
4 of both the City Charter and State Law.

5 *****

6 We are sure that the oil operators of California, as sincere
7 advocates of the American free enterprise system, will voluntar-
8 ily organize into the combinations required to bid on this con-
9 tract and not look to government -- the City of Long Beach and
10 the State of California -- to guarantee them an interest in this
11 development.

12 *****

13 From the Office of Leonard W. Brock
14 Petroleum Properties Administrator:

15 LIST OF COMPANIES AND INDIVIDUALS WHO HAVE RECEIVED
UNIT AGREEMENTS AND LETTERS OF NOTIFICATION

- | | |
|---|---|
| 16 1. C. C. Albright | 34. Leibroch, Landreth, Campbell & Calloway |
| 17 2. Amerada Petroleum Company | 35. James A. Lewis, Engineers |
| 18 3. Robert E. Anderson | 36. Marathon Oil Company |
| 19 4. Atlantic Oil Company | 37. Mobil Oil Company |
| 20 5. J. F. Austin | 38. Morgan Guar. Trust Co. of N. Y. |
| 21 6. British Petroleum Expl. Co. | 39. W. A. Moncrief |
| 22 7. Burnside and Fischer | 40. The Ohio Oil Company |
| 23 8. John Carr | 41. Orion Oil Company |
| 24 9. A. J. Burnside | 42. Pauley Petroleum |
| 25 10. Byron Oil Industries | 43. Producing Properties, Inc. |
| 26 11. Citizens National Bank | 44. Richfield Oil Corporation |
| 27 12. City of Los Angeles | 45. R. N. Richey |
| 28 13. Henry Clock | 46. John R. Rumbaugh |
| 29 14. Conservation Committee of Calif. Oil Producers | 47. Security First National Bank |
| 30 15. Continental Eastern Corp. | 48. Shell Oil Company |
| 31 16. Continental-Emsco Company | 49. Signal Oil & Gas Company |
| 32 17. Continental Oil Company | 50. Southern Calif. Edison Co. |
| 33 18. Core Laboratories | 51. Standard Oil Company |
| 34 19. County Assessor's Office | 52. Stanley and Stolz |
| 35 20. DeGolyer and MacNaughton | 53. State Lands Commission |
| 36 21. Douglas Oil Company | 54. Albert Stevenson |
| 37 22. Franwin Oil & Gas Company | 55. Sunray Mid-Continent Oil Co. |
| 38 23. General American Oil Corp. | 56. Superior Oil Company |
| 39 24. Golden Eagle Refining Co. | 57. Texaco, Inc. |
| 40 25. Gulf Oil Corporation | 58. Tidewater Oil Company |
| 41 26. E. B. Hall Company | 59. Union Bank Petroleum Dept. |
| 42 27. Lynn O. Hosson | 60. Union Oil Company |
| 43 28. Humble Oil and Refin. Co. | 61. C.R. Dodson, United Calif. Bank |
| 44 29. Humble Oil Company | 62. Westates Petroleum |
| 45 30. Harry Kues | 63. Read Winterburn |
| 46 31. Jade Oil & Gas Company | 64. Phillips Petroleum |
| 47 32. Jan Law, Consultant | 65. Western Oil & Refining |
| 48 33. Long Beach Oil Devel. Co. | |

1 COPY OF LETTER

December 7 1962

2 Pauley Petroleum
3 10000 Santa Monica Blvd.
4 Beverly Hills, California

5 Gentlemen:

6 Revised structure and isopachous maps of the productive
7 intervals in the Wilmington Offshore area, along with ditch
8 sample descriptions for the eight core holes drilled in the same
9 area, are available at the Long Beach Blueprint Company, 250
10 Locust Avenue, Long Beach, California.

11 Also available, at the Long Beach City Clerk's office,
12 are the well histories of the aforementioned eight core holes.

13 It is felt that the structural interpretation of the
14 Wilmington Offshore area has been fairly well established based
15 on information obtained from the eight exploratory core holes.
16 No further major changes are anticipated until additional data
17 becomes available.

18 The only charges for the structure and isopachous maps
19 will be the Long Beach Blueprint Company charges. The core hole
20 well histories are available in sets and may be purchased for
21 \$3.00 per set, including tax, from the Long Beach City Clerk,
22 101 City Hall, 205 West Broadway, Long Beach2, California.

23 Very truly yours,
24 LEONARD W. BROCK
25 PETROLEUM PROPERTIES ADMINISTRATOR
26 by J. W. Parkin
27 Petroleum Engineer

28 LWB:JWP:dl

29 ****

30 COPY OF LETTER

December 27, 1962

31 Shell Oil Company
1008 West Sixth Street
Los Angeles 54, California

Attention: Mr. Earl A. Armbruster

Gentlemen:

32 We anticipate that our proposed Field Contractor Agreement for
33 the operation and development of the Long Beach Unit will be
34 placed for bid early next year. We are now in the process of
35 final review of the Field Contractor Agreement. If your company
36 has any final suggestions, we would welcome them as soon as
37 possible.

38 Very truly yours,

39 LEONARD W. BROCK
40 PETROLEUM PROPERTIES ADMINISTRATOR

41 LWB:dl

1 COPY OF LETTER

September 4, 1962

2 CONTINENTAL OIL COMPANY
3 1137 Wilshire Boulevard
4 Los Angeles 17, California

5 ATTENTION: Mr. Schmidt

6 Gentlemen:

7 Copies of all the logs run in the first three test holes
8 drilled in the Long Beach Offshore Area, together with all core
9 and sidewell sample analysis data, are available at the Long
10 Beach Blueprint Company, 250 Locust Avenue, Long Beach, Cali-
11 fornia. A base map showing the locations of the core holes is
12 also available. The only charge is the cost of reproduction.

13 Additional data will be made available through the Long
14 Beach Blueprint Company at a later date on the other test holes
15 which are currently being drilled in the area.

16 Very truly yours,

17 LEONARD W. BROCK
18 Petroleum Properties Administrator

19 LWB:ls

20 ****

21 COPY OF LETTER

22 September 20, 1962

23 Texaco, Inc.
24 1215 East San Antonio Drive
25 Long Beach 7, California

26 Attention: Mr. Norris Saunders

27 Gentlemen:

28 Transmitted herewith is a copy of the Unit Agreement, Unit
29 Operating Agreement and Exhibits to Unit Agreement for the Long
30 Beach Unit, Wilmington Oil Field. Also included is a copy of
31 the first draft of the Field Contractor Agreement. These
documents and any revisions thereto must be approved by the
State Lands Commission. If approved, it is hoped that the
City will ask for bids on the Field Contractor Agreement in
early November.

The Field Contractor Agreement is still in the early drafting
stage and is submitted to prospective bidders as a means of
expediting the operations. Although the general provisions
have been discussed and approved by the City Council, the
agreement itself has not been considered. Any criticisms or
suggestions to improve this agreement will be considered but
must be made at the earliest possible time.

Very truly yours,

LEONARD W. BROCK
Petroleum Properties Administrator
LWB:ls

(End of comments on Statement of L. E. Scott)

1 COMMENTS BY THE CITY OF LONG BEACH ON THE STATEMENT BY
2 D. E. CLARK, SHELL OIL COMPANY, AT THE STATE LANDS
3 COMMISSION MEETING 2-28-63

3 Before commenting on the Shell Oil Company statement
4 itself, it is well to note that representatives of the Shell
5 Oil Company have been given every opportunity to make sugges-
6 tions and criticize any of the proposed documents. They have
7 been given all available data that they requested. Shell per-
8 sonnel received copies of the Unit Agreements and other related
9 documents as early as 9-19-62. Many meetings between Shell and
10 City representatives have been held, but most of the objections
11 raised in Mr. Clark's statement to the State were never present-
12 ed by Shell. It should be noted that the documents as presented
13 were finalized only after extensive consultation with members
14 of the State Lands Commission staff and the State Attorney Gen-
15 eral's offices and many modifications were incorporated in the
16 final contracts.

17 This discussion follows the sequence of comments as
18 presented in Mr. Clark's prepared statement, which will be
19 quoted as each section is answered.

20 " COMMENTS ON PROPOSED LONG BEACH UNIT - WILMINGTON
21 FIELD - BEFORE SPECIAL HEARING OF STATE LANDS
22 COMMISSION, SACRAMENTO, CALIFORNIA - FEBRUARY 28, 1963
BY D. E. CLARK, SHELL OIL COMPANY

23 "We appreciate the opportunity to comment on the proposed
24 form of contracts for the formation and operation of the
Long Beach Unit of the Wilmington Field.

25 "Our views on the proposed contracts, briefly stated, fall
26 under three general headings: Operations, the State of
California's Interest, and Industry at Large."

27 " OPERATIONS
28 These contracts adequately cover the operating requirement
29 for producing a known oil reserve by well-known production
30 techniques understood by any competent operator. The size
31 of the undertaking should not be equated to any inherent
difficulty of accomplishment. The contract language relat-
ing to operations is well known to us and the scriveners
demonstrate considerable familiarity with the oil and gas
operations. The observed omissions are generally most
favorable to the industry."

COMMENT:

1 Shell's comments on the operating features of these contracts
2 are generally favorable. We find nothing constructive in the
3 inference that there are certain "omissions" that are "generally
4 most favorable to the industry." We know of nothing omitted
5 from these documents which would be detrimental to the interest
6 of the City-State or the public interest.

7 "

THE STATE

8 These comments are directed to the interest of the State of
9 California in adopting the proposed contracts. You appreciate that under a net-profits format the items covered
10 under this heading are of only indirect concern to an operator who merely charges them off against the value of produced oil. They can, however, be of substantial monetary
11 significance to the State."

COMMENT:

12 It is difficult to comprehend this statement, for when the
13 Contractor computes a bid, all phases of cost must be considered
14 when analyzing any expense item and thus all expense items affect
15 both the Contractor and the State and the City. This would be
16 true under a gross bid, net bid, bonus or combination of same.
17 We feel that the method as recommended by the City better protects the public welfare and will be further elaborated on under
18 the two subsections, one of which, Federal Taxes, is not a reimbursable item, and the other, Ad Valorem Tax, which is a reimbursable expense.

21 "1. FEDERAL TAX

22 "The proposed field contract provides that the so-called
23 production payments constitute installments which must be
24 paid by the contractor in all events and cannot be avoided.
25 This will require the contractor to advance approximately \$51,000,000 to the City over the first three years.

26 "The Internal Revenue Service has informally advised us and
27 others that as now drawn these payments constitute a bonus, however, a comparison of projected profitabilities based on
28 Federal Income Tax consequences to the Field Contractor, i.e., advance payments treated (1) as a bonus or (2) as a
29 bona fide production payment, clearly demonstrates that a substantial monetary difference exists in favor of a true
30 production payment approach. This difference arises from the Federal Income Tax treatment of the income received by
31 the Field Contractor and is in the magnitude of two digit millions of dollars over the thirty-five-year life of the contract. A higher percentage bid to the City would result if the contract was recast to reflect both intent and actual creation of a production payment."

COMMENT:

1 The method as arrived at in the proposed agreement was
2 ascertained only after long deliberation with tax attorneys
3 representing the oil industry, including Shell. Our main thought
4 was to eliminate the treatment of this payment as a bonus under
5 income tax interpretation. It should be pointed out that the
6 City may exercise the option of requiring this payment. It was
7 the thinking of some that this definitely would strengthen the
8 contention that this item need not be capitalized.

9 Although Shell representatives brought up their objections
10 to the advance royalty clause as contained in this contract at
11 various meetings, they offered no acceptable alternates.

12 Shell has stated that it has an informal opinion from the
13 Treasury Department stating that this payment would be a bonus.
14 We requested a copy of this opinion from the company in a letter
15 on March 8, 1963.

16 While any acceptable proposal certainly would be considered,
17 it should be pointed out that this is but one factor in the bid-
18 ding. If some companies feel that this is a bonus, they should
19 bid on that basis. However, there are others who regard it as a
20 production payment and will bid in accordance with that opinion.
21 This element of risk is one of the features of competitive pub-
22 lic bidding in a true democratic society.

23 We feel that there are many factors of a far greater magni-
24 tude that all prospective bidders must consider. Such is the
25 cost per barrel for the extraction of oil. Some might feel that
26 75¢ per barrel is adequate while others might feel \$1.00 is more
27 realistic. We have had various opinions from tax consultants
28 relative to the advanced royalty payments, and from engineers on
29 costs and production. We feel that the contractor must take all
30 of these items into consideration, and the one who is willing to
31 bid the most after studying all factors will be the successful

1 bidder. In short, we feel that the City or State is under no
2 more compulsion to guarantee this phase of the contract than they
3 are to guarantee various engineering and ther cost items, which
4 would have far more effect on che ultimate bid.

5 "2. AD VALOREM OR PROPERTY TAXES

6 "In considering the influence of property taxes it had been
7 indicated to us by the Los Angeles County Assessor's Office
8 that an assessment might be made against 'Undeveloped Oil
9 Reserves.' The Los Angeles County Assessor held a confer-
10 ence with representatives of the oil industry on February
20, presumably to discuss this possibility. Actually, the
specific question was never answered, as an issue of much
greater significance developed.

11 "The Assessor indicated that he is now giving consideration
12 under the De Luz Homes case to assessing the entire 100%
13 interest in the tidelands property rather than only the net
14 profits interest of the contractor. The De Luz case (Calif.
15 Sup. Ct. 1955) held that in determining full cash value of
16 a lease for property tax purposes by the capitalization of
income method, the rent specified in the lease could not be
deducted from gross income from the property. It is the
Assessor's view that there is no difference between rental
and the retained interest of the City; therefore, no deduc-
tion should be made from gross income with respect to the
governmental interest.

17 "If assessments are to be made against 'Undeveloped Oil
18 Reserves' and would be applicable to the full cash value of
19 future net operating income, then the impact of property
20 taxes would substantially increase the cash expenditures of
21 the contractor and the time of his payout. Consequently,
22 the return to the City and State would be appreciably re-
23 duced, since under the field contract taxes are a chargeable
24 expense. We estimate that on a recovery of only 800 mil-
25 lion barrels of oil in a thirty-five-year period at a per
barrel rate of 20 cents, which appears to be the current
maximum rate of tax in the Wilmington Field, the property
taxes would total \$160,000,000. This is a substantial
diversion of income from the State and the Tidelands Trust
Fund to local governmental jurisdictions. Anyone urging a
contrary view should, of course, be prepared to indemnify
the City and State against this contingency in writing."

26 COMMENT:

27 In reviewing various State leases throughout California,
28 we find that the taxing jurisdictions tax the company's inter-
29 ests in the operation. We have discussed this matter with Mr.
30 Watson, the County Assessor, and as of now, no definite conclu-
31 sion has been reached in regard to the proposed tax to the
contractor on the entire leasehold and the undeveloped oil

1 reserves. However, we in no way believe that the contract as
2 submitted by the City in any way strengthens the possibility of
3 this tax. Certainly by the net profit method contract as pro-
4 posed by the City, the ultimate bid factor would be only a frac-
5 tion as compared to any other type contract. This would also
6 eliminate the possibility of a windfall for the company in the
7 event that the assessment was not made in the manner indicated
8 by Shell.

9 In summary, (1) the type of contract has nothing to do
10 with the assessment methods, (2) the City and State are better
11 protected under the proposed type contract than any other.

12 "3. INDUSTRY AT LARGE

13 "Without attempting to categorize the following comments,
14 we list a number of observations resulting from the con-
tract format.

15 "1) The successful bidder must advance \$51,000,000 over
16 the first three years as an absolute obligation even in the
17 face of litigation striking at the very validity of the
18 field contract. This is an open invitation to specious
19 law suits by taxpayers -- essentially blackmail in nature.
20 One needs but a cursory glance at the considerable history
21 of Long Beach tidelands litigation to conclude that our
22 concern is hardly illusory. This inflexible demand for
23 advances suggests motives for employment of such funds
24 foreign to the subject at hand and is a cynical disregard
25 of common business practice, where the seller is presumed
26 to produce the thing bargained for as consideration for
27 payment. Clearly these payments should be impounded in
28 the event litigation arises. Failure to so provide will
29 reduce bid offers by some measurable degree dependent upon
30 the risk assessment of the individual bidder."

31 COMMENT:

32 The purpose of advance payments is to provide income to
33 the City and State during the period of development when no net
34 profits are available. It is expected that under a reasonable
35 development program net profits for payment to the City and
36 State will be available in three to three and a half years.
37 Under bonus type bidding as advocated by some, and practiced
38 elsewhere, the entire amount would be paid in advance with no
39 thought of impoundment.

1 "(2) The contract contains three elements providing for its
2 own nullification.

3 "First, we refer to the requirement of the commitment of
4 60% or more of the town lot tracts to the unit for it to
5 become effective. We must have the advance written assur-
6 ance from those companies holding town lot leases that they
7 will commit their lands to the unit irrespective of whether
8 any one or more of them qualifies as a successful bidder.
9 Otherwise, they hold an absolute veto power on legitimate
10 bidders, a matter we must assume escaped the attention of
11 the drafters of this provision."

12 COMMENT:

13 On this point, Mr. Clark is referring to companies who had
14 previously submitted into the record letters stating their de-
15 sire to sign the Unit Agreement. The City representatives have
16 been assured to their own satisfaction that the companies in-
17 volved in drafting the Unit Agreement were prepared to sign
18 these agreements when asked.

19 Obviously it is the City's intention, and we believe the
20 State would insist, that the Unit and Unit Operating Agreements
21 be executed prior to opening the bids for the Field Contractor
22 Agreement.

23 At the Unit meetings when the execution of the Unit Agree-
24 ments was discussed, it was the City's contention that no point
25 would be served in signing prior to State Lands Commission ap-
26 proval. Conversely, the impact of bringing a signed document
27 to the Commission for approval might be interpreted to mean
28 that a rubber stamp approval was indicated.

29 "Secondly, we have serious reservations as to the provi-
30 sions in Article 16 of the Unit Agreement relating to
31 relief from Unit obligations. As applied to the City, we
32 question whether these provisions may not involve a viola-
33 tion of the prohibition against alienation contained in
34 the Trust under which its tide and submerged lands are
35 held.

36 "Lastly, what of the rule against perpetuities which in
37 effect directs that 21 years shall be the maximum permis-
38 sible period for the vesting of future property rights?
39 The option rights contained in the Unit Agreement (whereby
40 continuing participants may elect to acquire the working
41 interest of a withdrawing participant) must become suspect
42 under the perpetuities rule, since there is no express
43 limitation on the period within which such options become
44 exercisable."

1 COMMENT:

2 Similar provisions are found in the Fault Block II, Fault
3 Block III and Fault Block IV unit agreements now in effect in
4 the Long Beach Harbor area which the Attorney General and the
5 State Lands Commission previously approved. The Fault Block II
6 contract, which was the forerunner of these units, was approved
7 by the California Supreme Court in the case of Vickers v City of
8 Long Beach. Such agreements have been approved by attorneys rep-
9 resenting each of the companies owning working interests in the
10 units including Socony Mobil, Union Pacific, Ford Motor Company,
11 Signal Oil and Gas, Southern California Edison, Humble Oil Com-
12 pany, Richfield Oil Company, Termo Oil Company, Superior Oil
13 Company, and Universal Consolidated Oil Company.

14 In addition, attorneys for Standard, Union, Signal, Rich-
15 field, Jade, and Continental Eastern together with the Attorney
16 General and the Long Beach City Attorney, have approved the Long
17 Beach Unit.

18 "(3) We are opposed to such provisions of Article 6.3 of
19 the Unit Agreement as provide for the addition of public
20 lands to the Unit by resolution of the City Council of the
21 City of Long Beach. Such a procedure is in reality an
22 amendment of the term of existing contracts covering lands
23 that would otherwise be subject to future competitive bid-
24 ding and substitutes the closed negotiation process for the
25 independent bidding evaluation of the entire industry. This
26 clause, if left unchanged, could deprive the City and State
27 of substantial future income and favors certain operators
28 over others. Again, the drafters of these papers must be
29 presumed to have overlooked this potential windfall."

30 COMMENT:

31 The Unit Agreement states the addition of lands by resolu-
tion of the City Council can be done only "when the City Council
of the City by resolution finds there is a danger of subsidence
in the Unit Area without the addition of tide and submerged
lands" east or west of the Unit area. This provision is design-
ed to allow the City Council to extend the Unit to the east or

1 to the west without obtaining the approval of other companies in
2 the Unit in the event it is necessary to do so to prevent sub-
3 sidence.

4 The provision referred to was placed in the agreements at
5 the insistence of the City over the protests of Upland working
6 interest owners. This provision in this Unit Agreement obvi-
7 ciously cannot affect the terms of other agreements or contracts
8 covering property to the east or west of the Unit area. It in
9 no way would allow the City to extend the term of any existing
10 contract. At the expiration of these contracts, both the State
11 Lands Commission and the City Charter require competitive bid-
12 ding for new contracts.

13 "(4) The crude oil pricing provisions are most interesting.
14 Unlike competitive State of California oil and gas leases,
15 the price of crude oil is tied to the average of posted
16 prices rather than the highest posted price. This usually
17 results in the State receiving less for its oil and has an
18 unusual side effect."

19 COMMENT:

20 The State leasing provision requires the crude oil price
21 to be the current market price defined as "not less than the
22 highest price in the nearest field in the State of California
23 at which oil of like gravity and quality is being sold in
24 substantial quantities, subject to an appropriate allowance for
25 the cost of delivering of such oil to onshore storage and trans-
26 portation facilities." This does not necessarily mean the
27 "highest posted" price at the well. The State leases obviously
28 deal with a different pricing policy than the one before us now.

29 It must be remembered that the contractor on a State lease
30 can quit claim the lease at any time and avoid all further obli-
31 gations including the purchase of oil at an unrealistically high
price. In addition, the oil involved in the State pricing pro-
vision is only the State royalty oil, sometimes as little as
12½% from the lease.

1 The precedent of using the average posted price for deter-
2 mining the market value of oil was established in the other Wil-
3 mington units. All these other units approved by the State Lands
4 Commission provide that the market value of oil will be "estab-
5 lished by the average of the prices posted by Standard Oil Com-
6 pany of California, Socony Mobil Oil Company Inc., Texaco Inc.
7 and Union Oil Company of California"

8 Both existing Long Beach tidelands oil contracts provide
9 for oil payment on the average posted price. Since 1950 the
10 difference in payment on the LBOD contract between the average
11 and highest posted price has been equivalent to about 16 hund-
12 redths of a cent per barrel. This proposed contract requires
13 payment on the 1/10 degree gravity. This will average about 3¢
14 per barrel more than an even degree gravity payment. The Field
15 Contractor must pay a price as high as he pays anyone else in
16 the field. Since the equity formula is influenced by the fluc-
17 tuation between high and low gravity prices, it is well to have
18 the price tied to the average. A townlot working interest owner
19 who also posts would have little effect on the over-all price.

20 A tabulation of the "posted" price of 20° crude for the
21 past ten years is attached.

22 The City feels that the antitrust laws concerning "posting"
23 and regulation of prices are adequate to protect the City and
24 State in this instance. The purchaser if he posts will have
25 only one of the prices used in the average. His motives would
26 be fully understood if his price were always low. An adverse
27 effect on the over-all bid would result if the purchaser were
28 to be put at the mercy of any small operator who for short peri-
29 ods of time were paying an unrealistic price for oil to insure
30 immediate refinery needs. The short term purchaser takes advan-
31 tage of depressed prices when the market is oversupplied and

1 pays a premium when oil is in demand. A long term contract
2 should give a true value to the oil without these short term
3 fluctuations caused by the immediate needs of any purchaser.
4 Several years ago a large percentage of producers in Wilmington
5 that did not have long term contracts were either curtailed or
6 selling oil at 50¢ per barrel under "posted" price.

7 "Consider the case of the three companies presently post-
8 ing prices in the Wilmington Field. Could all or any two
9 safely become joint bidders without incurring the accusa-
10 tion of price collusion irrespective of whether the prices
11 posted by them are identical or dissimilar? Further, does
12 not a similar risk attach to any field contractor who
13 attempts to post prices in the Wilmington Field?"

14 COMMENT:

15 If this is a problem, it would be a problem which would
16 exist regardless of what price standards are used. The pattern
17 of using average posted prices has been used in existing units
18 in the Long Beach Harbor area of the Wilmington oil field and no
19 problems have been encountered. Further, we feel that there
20 are ample laws in existence which protect against price fixing.
21 If ever found to be a problem, the companies involved can easily
22 take care of it by simply stopping their practice of "posting."

23 "(5) Time permits just the briefest mention of certain col-
24 lateral effects growing out of the contracts. The situa-
25 tion at hand is far removed from the casual offering of a
26 relatively small piece of land under competitive conditions.
27 You are being asked to place under development the largest
28 uncommitted oil reserve in the world. The development of
29 this reserve will trigger a series of complex events which
30 will have regional, national and international force. This
31 stems from the economic power that will result from the
acquisition of a 1½ billion barrel reserve in a single
parcel by a single operator or even a combination thereof.

32 "The problem that concerns us is the antitrust implications
33 of this offering in a single contract. We agree that the
34 proposal before us differs markedly from the usual private
35 transactions which are so subject to attack by the Depart-
36 ment of Justice in that here the City and State by their
37 own actions are making an offer to the industry. The
38 aspect of this that is so bothersome is whether or not the
39 City and State make this decision independently.

40 "If this cannot be demonstrated, we have no assurance that
41 the offered contract will not be the subject of immediate

1 "antitrust investigation by the Department of Justice or
2 even the State itself. We should note that demands for
3 such an investigation could emanate from this or any of
4 forty-nine other jurisdictions far beyond the control of
5 forces within this State."

6 COMMENT:

7 It hardly seems possible that a 1½-billion barrels reserve
8 will materially affect the world reserve of in excess of 300
9 billion barrels. What is the real effect of the estimated 150
10 thousand barrels per day production on the national demand of
11 10 million barrels per day? The Shell import quota is now
12 47,000 barrels per day of cheap foreign oil which would equal
13 600 million barrels over the term of this contract.

14 It is interesting to note that on the basis of the Royal
15 Dutch Shell Group current production of 2,900,000 barrels per
16 day (statement of President of Royal Dutch Petroleum Company)
17 that during the lease period of the proposed contract that they
18 would produce 35 billion barrels or in excess of 21½ times the
19 total production of the area under discussion. Considering the
20 Shell Group production above, one must stretch his imagination
21 to remotely envision the "complex 'international" problems that
22 this contract would create.

23 This contract will be awarded after competitive bids. It
24 also must be remembered that the City with State coordination
25 retains full control over the rate of production and the Field
26 Contractor does not own the oil in place as in a normal lease.

27 We understand the antitrust section of the Attorney Gener-
28 al's Office reviewed this aspect of the contract before the
29 Attorney General approved the form of the agreement.

30 "It seems to us almost elementary that this Commission
31 after full investigation must make a finding to the effect
that the ultimate format will encourage maximum partici-
pation in a free and open bidding competition thereby
minimizing any suggestion that it is designed to effect
a concentration of economic power.

1 "To avoid any aspect of the above problem, to offer wider
2 participation to the industry in the offered oil reserve
3 and to afford the City and State the opportunity for great-
4 er return, we strongly recommend that the offshore tract
5 be subdivided into several parcels. Such an approach was
6 recommended by the Harbor Department of the City of Long
7 Beach and appears to have been endorsed by your own staff.
8 This in no way would interfere with the Unit plan of opera-
9 tion as such offerings could be made fully subject thereto."

10 COMMENT:

11 The Shell Oil Company statement offers no substantiation
12 that letting the contract in parcels will afford a greater re-
13 turn.

14 Physically splitting the offshore area into several opera-
15 tional parcels is completely unacceptable from the standpoint
16 of subsidence control. The continual supervision, coordination
17 and arbitration between operators that would be required to in-
18 sure adequate protection against subsidence in this very complex
19 geologic area would be extremely costly. The duplication of
20 operations and personnel required by the several contractors
21 also would add greatly to the cost of operations. It probably
22 would require a change in the City drilling ordinance. Further-
23 more it offers no advantages that cannot be obtained by other
24 means.

25 It has been suggested that Tract 1 could be split into
26 parcels but operated by one contractor under the terms of the
27 Unit Agreement. Although less objectionable from the standpoint
28 of subsidence control, and possible under the City drilling
29 ordinance, this plan also has disadvantages. It seriously com-
30 plicates the determinations of equities. Additional City per-
31 sonnel would be required for the coordination of the probably
divergent interests of the various contractors. The bid would
suffer because of the uncertainty involved in dealing with un-
known partners and because of the fact no bidder would have ad-
vance knowledge of the operational and technical ability of

1 the Field Contractor. Again this plan offers no advantages not
2 obtainable in the following proposals.

3 The suggestion of splitting Tract 1 into biddable undivided
4 interests is operationally very similar to the proposal by the
5 City. The main operational disadvantage would be the added City
6 staff required to coordinate the operations and the loss occa-
7 sioned by the inevitable compromises of a large number of diverg-
8 ent interests. All indications are that no single company will
9 bid on this project alone. This means that this undivided inter-
10 est proposal and the City proposal under consideration are in
11 reality very similar. The main difference is that the plan as
12 proposed by the City would allow the companies to follow the
13 processes of free enterprise and select their partners and the
14 terms of the agreement that bind them together. The undivided
15 interest proposal would force companies together with unknown
16 partners under a contract formed by governmental bidding pro-
17 cedures. For the following reasons, the City proposal is super-
18 ior and will result in a greater income to the City and State.

19 1. Advance knowledge and confidence in the technical abil-
20 ity and operational know-how of the field operator by the part-
21 ners in the combine will result in a better bid.

22 2. The flexibility in forming a combine to meet the particu-
23 lar needs of the various partners will result in a more favor-
24 able bid. As an example, a combine could be set up whereby one
25 partner conducted the operations, took 20% of the oil, put up
26 10% of the capital and obtained X per cent of the operational
27 profit. Another variation could allow one partner to take 5%
28 of the oil in the initial stages and 40% after 10 years. The
29 option to change these percentages as operations proceed could
30 also be extremely valuable.

31 3. An advance voluntary agreement prescribing operational

1 procedures among partners and presenting a unified plan to the
2 City and State will be more assuring to bidders than being at the
3 mercy of unknown partners and operators.

4 4. It will be far more economic for the City and State to
5 deal with one identity rather than several.

6 5. The advantage of operating the property, including 3%
7 overhead allowance, would be reflected in only one segment under
8 the undivided interests bid, while it would influence the whole
9 bid as proposed by the City.

10 6. A bid on the whole by a group of companies formed under
11 their own terms will be superior to that of individual companies
12 bidding on undivided interests. Since the various combines have
13 but one chance they will exert more effort to produce the best
14 bid. This method will eliminate the possibility of collusion in-
15 volved in multiple parcel or undivided interest bidding. The
16 letting of the bid in parcels will not necessarily eliminate the
17 possible "concentration of economic power" in "a single company
18 or even a combination thereof." This same single company or com-
19 bination thereof could win all parcels. It is highly improbable
20 that any one company can bid alone and no one has suggested that
21 this is a probability.

22 It should be pointed out that the Harbor Department report
23 did not recommend the development of this area in parcels as
24 such. Division into parcels was only one of several alternatives
25 outlined in the Harbor Department Report. The reference to en-
26 dorsement of this policy by the State Lands Commission staff
27 appears to be in conflict with the statement given at the
28 2-28-63 meeting.

29 "We further recommend that prior to any offering, the so-
30 called pre-unit expense agreement, which Article 9.1 of
31 the Unit Operating Agreement describes as an agreement
between the City and certain unidentified working interest
owners, be made public. This is one of the most unusual

1 "provisions we have ever encountered for it clearly implies
2 that prior private investments offering economic advantage
3 in this bidding situation are to be charged against the
4 efforts of the successful bidder with consequent reimburse-
5 ments out of public funds. Even if this almost ludicrous
6 provision is allowed to remain, the State and all potential
7 bidders should be fully informed as to the extent to which
8 their own efforts and public funds are being committed to
9 reimbursement of private risk. This provision suggests a
10 pork barrel of potentially significant proportions and dis-
11 torts the equality of opportunity that is inherent in a
12 truly competitive offering."

13
14 COMMENT:

15 Although termed an administrative expense agreement rather
16 than a pre-unit expense agreement, in each of the other Wilming-
17 ton units a similar arrangement was used and proved to be satis-
18 factory to the working interest owners to handle unit expenses
19 incurred prior to unitization. Although such pre-unit expense
20 agreement was never executed, its purpose was to cover the cost
21 of printing the unit documents estimated at \$20,000 if the Long
22 Beach Unit did not become effective. The City would have sup-
23 plied the Shell Oil Company with this information at any time.

24 "SUMMARY:

25 "In summary, we can state our opinion as to the contracts
26 very briefly. First, we find them acceptable as to operat-
27 ing features. Secondly, we find them unpalatable as to the
28 number of features related to equality of bidding opportu-
29 nity and exposure to excessive legal risks. And finally,
30 while actually not of direct concern to us, we would sug-
31 gest that this Commission must necessarily consider whether
the present posture of the proposed offering is such as to
reasonably assure the maximum economic return to the State.

"We will make no decision as to whether we will even offer
a bid until we have had a chance to evaluate further action
by the State Lands Commission. We can say without any
equivocation that the contract in its present form prevents
our offering the maximum bid that we might otherwise make.

"We urge the Commission to hold further hearings on the
contracts with a view toward offering these lands on a more
advantageous basis to all concerned. Once this is accom-
plished, we would expect to be a highly competitive bidder
for the operating contract."

32 COMMENT:

We believe the contract as presented will obtain the

maximum economic return to the City and State while protecting the City of Long Beach from subsidence and despoilment of the beaches and tideland area. Mr. Clark has not presented any facts or specific proposals to alter this thinking.

A COMPARISON OF WILMINGTON POSTED PRICE BY
STANDARD, MOBIL & UNION OIL COMPANIES

Company	Effective Date	A.P.I. 20 ⁰	Company	Effective Date	A.P.I. 20 ⁰
Standard	Dec.12,1950	2.13	Standard	Jan.26,1959	2.44
Mobil	"	2.13	Mobil	Oct. 2,1958	2.44
Union	"	2.13	Union	Oct. 1,1958	2.44
Average		2.13	Average		2.44
Standard	Feb.16,1953	2.34	Standard	Jan.26,1959	2.44
Mobil	"	2.34	Mobil	Oct. 2,1958	2.44
Union	"	2.34	Union	Oct. 1,1958	2.30
Average		2.34	Average		2.3933
Standard	Oct.17,1955	2.42	Standard	Jan.26,1959	2.44
Mobil	"	2.42	Mobil	Oct. 2,1958	2.44
Union	"	2.42	Union	Apr. 1,1959	2.44
Average		2.42	Average		2.44
Standard	Feb. 7,1956	2.44	Standard	Sept.11,1959	2.28
Mobil	"	2.44	Mobil	Sept. 2,1959	2.15
Union	"	2.44	Union	Sept. 1,1959	2.15
Average		2.44	Average		2.1933
Standard	Nov.19, 1956	2.73	Standard	Sept.11,1959	2.28
Mobil	"	2.73	Mobil	Sept.18,1959	2.28
Union	"	2.73	Union	Sept. 1,1959	2.15
Average		2.73	Average		2.2366
Standard	Jan.17,1957	2.98	Standard	Sept.11,1959	2.28
Mobil	"	2.98	Mobil	Dec.17,1959	2.28
Union	"	2.98	Union	Jan. 1,1960	2.28
Average		2.98	Average		2.28
Standard	Apr.14,1958	2.88	Standard	Sept.24,1960	2.30
Mobil	"	2.88	Mobil	Sept.28,1960	2.30
Union	Apr.16,1958	2.88	Union	Sept.24,1960	2.30
Average		2.88	Average		2.30
Standard	June 24, 1958	2.70	Standard	Jan.22,1962	2.35
Mobil	June 9 "	2.67	Mobil	"	2.35
Union	June 10, "	2.67	Union	"	2.35
Average		2.68	Average		2.35
Standard	Sep.30,1958	2.44			
Mobil	Oct. 2,1958	2.44			
Union	Oct. 1,1958	2.44			
Average		2.44			

END OF LONG BEACH COMMENTS ON STATEMENT OF D.E.CLARK

1 MR. CRANSTON: I believe now would be the appropriate
2 time for us to hear from representatives of industry if there
3 are those who would like to speak at this time. The other day,
4 at the outset there were three representatives who indicated
5 they would like to speak and one vanished by the end of the day.
6 Is that person here now, and would he like to speak? We did not
7 get him identified the other day. (No response) If not, is
8 there anyone else who wishes at this point to speak?

9 MR. FORAKER: My name is W. A. Foraker, President,
10 Orion Oil Company. We have acquired approximately one per cent
11 of the upland leases and have a statement that does not have to
12 be read into the record. It relates to participation of the
13 Equity Committee. I would like to have it clear in the record
14 but won't take your time to read it.

15 MR. CRANSTON: Thank you very much. It will be
16 included in the record.

17 (Statement follows):

18 "STATEMENT BY W. A. FORAKER, President, Orion Oil Company,
19 to State Lands Commission hearing in Sacramento March 28,
20 1963, requesting change in the Equity Committee membership
requirement for upland working interest owners, Long
Beach Unit.

21 "In the upland tracts 3 through 91 of the Long Beach Unit,
22 equity committee membership is now arbitrarily limited to
23 participants owning two per cent (2%) or more of the sur-
face acreage, or one and one-half per cent ($1\frac{1}{2}\%$) of unit
participation at any given time.

24 "As one of the independent owners of working interests in
25 the upland, we request that equity committee membership
26 be available based on one per cent (1%) or more of upland
surface acreage, or three-fourths of one per cent ($\frac{3}{4}$ of
1%) of unit participation at any given time.

27 "This change will protect the interests of upland opera-
28 tors and royalty interest owners who otherwise would
receive payments based on allocations determined solely
by the major working interest owners.

29 "We have one per cent (1%) of the townlot under lease.
30 Our participation will require capital investments and
31 future operating costs approaching one million dollars
(\$1,000,000).

1 "To insure fair representation in future operations, it is
2 mandatory that pertinent sections of the agreements, includ-
3 ing Exhibit D of the Unit Agreement, be modified. We also
4 call this request to the attention of the City of Long
5 Beach and the other companies holding upland working
6 interests."

5 MR. MITCHELL: My name is Johnny Mitchell and I am
6 president of Jade Oil Company. May I ask the Commission - - I
7 don't quite follow your position as to how this thing will pro-
8 ceed. Will you be making a decision today?

9 MR. CRANSTON: No. The staff will seek to work out a
10 mutually convenient date with the City of Long Beach and with
11 representatives of industry to examine the contract in as much
12 detail as anyone feels is necessary, and I think that is con-
13 siderable detail.

14 MR. MITCHELL: What do you call "industry"?

15 MR. CRANSTON: Anyone from the public or from oil
16 companies will be welcome to submit their ideas on this contract.
17 Following this, the staff will also throw into the hopper its
18 own thoughts and any thoughts expressed by this Commission to
19 the staff. Following that process, there will be further hear-
20 ing by this body to resolve any differences, and as soon as pos-
21 sible consistent with our own findings that we have before us,
22 we will decide on the contract.

23 MR. MITCHELL: You mean another hearing here?

24 MR. CRANSTON: Yes -- after much of the detail can be
25 hammered out in this staff meeting and brought to us in some
26 form.

27 MR. MITCHELL: It seems to me - - these delays kind
28 of surprise me because you have had it since September. I don't
29 know where O'Sullivan is - - but he has had it, the industry has
30 had it and the State has it. This has become a political foot-
31 ball. I mean, these opposing companies have had ample time to

1 discuss, to read, to translate, to leave the pressure off the
2 State. I mean I don't approve of the tactics or the procedure
3 this thing has gone through. Am I at liberty to express my
4 views?

5 MR. CRANSTON: Of course you are.

6 MR. MITCHELL: I don't want to be out of order.

7 MR. CRANSTON: Anything you want to say - -

8 MR. MITCHELL: I am an independent and I fight for my
9 rights, and I believe in my rights, and I believe this industry
10 here is great enough and it is competitive enough that it has no
11 room for political influence; and I say here that this thing has
12 been postponed purposely -- because no greater contract can be
13 written. I don't think there is a qualified Senator that can
14 understand anything about a contract. Who this contract was
15 adopted by, I don't know; but I object seriously that people have
16 had it since May; I have been in meetings with my representatives
17 with Standard and major companies and I have been treated with
18 utmost courtesy, respect. There was some question in O'Sullivan's
19 paper in Butte County - - (Unintelligible to reporter).

20 I want it in the record here that from May until
21 September, Jade owned fifteen hundred leases in the Long Beach
22 area, and Jade is actually the smallest interest owner of the
23 opposition, or those that are in favor of the Long Beach plan;
24 and it wasn't until November of last year that I decided to sell
25 half of my interest to Standard and I have sold half subject to
26 certain conditions.

27 I mean, I don't speak just for the sake of speaking.
28 I am president of Texas Independent Producers and Royalty Owners
29 Association in Texas, which is composed of six thousand members.
30 I was supposed to be in Washington yesterday testifying. I am
31 a member of the National Petroleum Council, was supposed to be

1 there last Friday but came here because I thought surely I would
2 be accorded a fair representation in this State. I am very
3 proud of my ancestors and very proud to be a part of California
4 producing.

5 I believe we ought not to deprive the people of Cali-
6 fornia by continuing delay and I don't think the State Legisla-
7 tors or the Assembly here is qualified to govern the production
8 of the unit plan. I think it is purposely done for a particular
9 reason.

10 For the record, I think I will re-read both my letters,
11 if you don't mind:

12 "Mr. F. J. Hortig
13 Executive Officer
14 State Land Commission
15 State Capitol
16 Sacramento, California

17 Dear Sir:

18 I am taking the liberty of answering some of the points
19 brought forth at the hearing last week involving the City
20 of Long Beach tideland development.

21 The objections were presented by Pauley Petroleum, Shell
22 Oil Co., and Texaco. There were several objections pre-
23 sented by this group and with your permission, I would
24 like to answer a few of the objections with the following
25 statements.

26 My name is Johnny Mitchell. I have been the President of
27 Jade Oil and Gas Co., a California corporation, chartered
28 in 1908, since 1960. Our company is listed on the Pacific
29 Stock Exchange and has been producing in California since
30 1908. Aside from being President of Jade Oil Co., I am a
31 partner in the independent producing firm of Christie,
Mitchell & Mitchell, operating out of Houston, Texas,
operating approximately 1,100 producing wells in Texas,
Louisiana, Oklahoma and Canada.

Our firm has been operating as a partnership since 1946 and
we are recognized as one of the leading independents in the
midcontinent area. I am presently President of the Texas
Independent Producers and Royalty Owners Association, con-
sisting of 6,000 members. This is the largest oil associ-
ation of its kind in America. I am also a member of the
National Petroleum Council, appointed by the Secretary of
the Interior.

Jade is a relatively small producing company. The only
production that this company owned prior to my becoming
President, was fee-producing royalties in a few wells in

1 "the Taft Field, Kern County, California. We now own approxi-
2 mately 50,000 acres of leased land in California, and are
3 producing approximately 600 barrels of oil a day in the Salt
4 Lake Field, Los Angeles. In addition, we own joint interest
5 in several gas wells in northern California. A large part
6 of our holdings are in Texas and Louisiana.

7 We take exception to the statement issued at the State Land
8 Commission hearing regarding Long Beach, in which these com-
9 panies stated that the proposal submitted by the City of
10 Long Beach was monopolistic. We should like to be on record
11 that of all the companies present at this hearing, both for
12 the Long Beach proposal and those against it, Jade Oil and
13 Gas Co. is by far the smallest company in assets and income.
14 If anyone should use the term monopoly due to assets and
15 size, it should be Jade.

16 It is strange that an oil company presenting testimony
17 would think that the advantage of alertness of his competi-
18 tor is a part of a monopoly plan. I am a newcomer to the
19 State of California, having been in California for the past
20 three years. I was aware and have known that the Wilmington
21 area in Long Beach, both onshore and offshore, has been a
22 proven oil reserve. I was aware that some of the smarter
23 major companies that believed in the new Wilmington area
24 were investing their capital in leases onshore. From an
25 onshore advantage, they planned ahead for the future unit
26 and specifically for the day when such a proposal could be
27 presented to the State Land Commission for the approval for
28 the development of this vast reserve of oil. Without a
29 doubt, the objectors were equally aware of this one-billion
30 barrel of oil reserve.

31 Never in my career as an independent oil man have I ever
heard competitive producing companies of such magnitude
make such excuse of the word monopoly when the fault of not
being oil-minded was entirely their own. There is no ques-
tion in my mind that these companies that are objecting to
the City of Long Beach's proposal had the same opportunities
to lease the onshore leases and the same opportunity to
form a combine to bid the offshore. If a company as small
as Jade Oil and Gas Co. was able to enter the Long Beach
area and successfully lease over 1500 town lots since last
February, comprising of 300 acres, then I find it ridicu-
lous for anyone to offer a protest.

In these unit agreement meetings, Jade's smallness was
respected and great concern was shown to protect my com-
pany's interests by these major companies. To be a part
of this unit agreement, to be able to vote yes or object
for the many problems that arose, to be able to present
our engineering analysis and opinions at these meetings
certainly proves that there was not any intention of the
companies and the City of Long Beach to write a unit
agreement in favor of these larger companies.

The Long Beach onshore-offshore area, as we have all been
told, comprises one of this nation's largest known oil
reserves and will in time be a major supplier of crude oil
in this state, especially at a time when the other produc-
ing capacities of California are decreasing each year.

1 "As a technical man, I find it impossible to even consider
2 dividing the offshore into separate parcels to satisfy the
3 individual tastes of a few objecting operators. Certainly,
4 these objecting operators have had ample time to be a part
5 of the unit by acquiring onshore leases. Through their
6 negligence, and for other reasons unknown to me, these com-
7 panies that are objecting today simply missed the boat. I
8 can safely assume, knowing the policies of the objecting
9 companies, that the search for new oil for these objectors
10 in the past few years has carried them to foreign countries
11 where they thought the search for oil could be more profit-
12 able. They awakened too late to discover that one of the
13 greatest oil fields in America was in their back yard. To
14 criticize the prudent ability of the companies who believed
15 in California production, who invested in the Long Beach
16 area and finally concluded a logical unit operating agree-
17 ment, should be complimented, not criticized.

18 All companies are aware that an oil field of such magnitude
19 as Long Beach requires unit planning, controlled drilling,
20 pressure maintenance, water injection to prevent subsidence,
21 and most of all, properly drilled wells on a well by well
22 basis to insure maximum economic recovery.

23 Supposing that we could even consider the case of the object-
24 ing companies and were to divide Tract #1 into many parcels,
25 it would require several more operators, joining small units,
26 but it would require not only the drilling of many unnecess-
27 ary wells, but cause uncontrollable production from each
28 operating unit. It would greatly complicate pressure main-
29 tenance and proper injection control, but worst of all, it
30 would create law suit after law suit between unit operators
31 attempting to find a fair equity formula between each unit.
I believe that any logical engineer or capable oil man would
testify that it is impossible to determine the water levels
of the different sands, foresee the fault patterns of this
giant reservoir, place the locations for the 1,000 producing
and injection wells to be drilled. Only on a planned drill-
ing program under one unit agreement can such a complex opera-
tion be carefully carried out. Every well drilled could
cause a change of location for the next one. Fault patterns
were placed by nature millions of years ago, water levels
were also formed by nature and only by drilling can they be
truthfully determined. It is impossible to even think that
the objectors, all of whom are qualified, could even have
the courage to ask that this potentially great reservoir be
divided into different units purely for their selfish pur-
poses, completely forgetting that the State and the taxpay-
ers will be losing millions of dollars in revenue unless it
is kept in one unit and under one operation.

26 There was also the objection that the cost of bidding in
27 this offshore parcel was too costly to any one company.
28 Reference was made that the objecting companies were part-
29 rers in other offshore parcels in California and had served
30 the State in bidding, drilling, and producing oil in other
31 parts of the coastal waters of California. It could be
asked, why not join hands here. May I add this thought also,
since we are a smaller company and unable to participate in
the bidding on other offshore parcels, we find it possible
to join the Long Beach unit.

1 "It has been the practice of this industry for years that
2 what a producer can afford, he tackles, and what he cannot
3 afford, he watches. This is my first experience to see
4 major companies object on the grounds of monopoly when their
5 resources are equal to or superior to the operators who are
6 successfully working out the Long Beach unit. I have come
7 to the conclusion that these producers who are objecting to
8 the Long Beach unit have no objections to the offshore
9 parcels they control along coastal California. It seems
10 that these objectors only cry monopoly when they, through
11 their own negligence, failed to take care of the golden
12 opportunity in Long Beach.

13 I differ with the statement that the increase of domestic
14 production by one company will increase its import allowable.
15 This is not a true statement. Imports are based primarily
16 on refinery runs and there is no present indication that any-
17 one is increasing their refinery capacity and even if they
18 do, the import allowable is primarily based on historic im-
19 ports. The objectors failed to point out that the combined
20 bidding on Tract #1 is not one company, but is composed of a
21 group of companies. The oil produced will be delivered to
22 the tanks in kind for each company to take their respective
23 portion. As small as Jade is, I will have the privilege of
24 collecting my share of oil from this unit. This again
25 dispels monopoly.

26 If I had unlimited resources, I would like to join one of
27 these combines in bidding this offshore. Even so, I do not
28 hold any personal grudges against those that are able to
29 bid, and above all, wish them success.

30 There are serious problems in the distribution of oil from
31 this unit and I anticipate that these major producers who
32 are able to bid this unit in will have to be fair and just
33 with the over-all State production. With Long Beach, this
34 State can become self-sufficient in its own domestic produc-
35 tion, eventually eliminating imports from Canada and cer-
36 tainly from abroad. I am sure that eliminating imports
37 will be very hard for some of the objectors to accept, as
38 they have spent most of their time in Washington at the
39 Appeal Board trying to import more oil into California
40 rather than find it. What surprises me the most was to
41 hear these objectors even state that they are interested in
42 California production with their past history of living in
43 Washington, asking for additional imported oil.

44 It would certainly seem that these objectors can combine
45 their talent and resources if they want to, to bid and oper-
46 ate the Long Beach unit. From the objections I have read
47 it is evident that the objectors are not concerned with
48 uniting as a team, but are only anxious to divide and per-
49 sonally gain from this division.

50 I am concluding my opinions with the request that this Long
51 Beach reservoir in all its greatness be properly developed
52 into one unit and be preserved as a model field of today
53 and the future. To tear this great field apart for the whim
54 of those that missed the boat would not only be tragic to
55 the State of California, but an insult to nature itself."

1 MR. MITCHELL (continuing) I have one more page, if I
2 may. This was written last night and it may be rough, but my
3 feelings are given:

4 "Mr. F. J. Hortig, Mr. Champion, Mr. Cranston, Mr. Anderson,
5 for the second time I object to the statement of Shell Oil
6 Company, Pauley Petroleum Company and Texaco. I feel sure
7 there are other companies of the same stature hiding behind
8 the statement of Pauley Petroleum Company. In my opinion,
9 these objections are being presented to confuse the State
10 Land Commission and other responsible members of the State
11 Legislature.

12 This Long Beach Plan was not born from immaturity. The
13 present producing Wilmington field has produced over
14 900,000,000 barrels since 1936, ably administered by compet-
15 ent supervision, ably staffed by technical men as well as
16 practical men. The personnel and experience of many of the
17 objecting major oil companies, as well as those of the com-
18 panies that are in favor of the Long Beach Unit Plan, are
19 perfectly capable and responsible to operate the One Unit
20 Plan. In fact, the experience gained in drilling and pro-
21 ducing the present Wilmington Field will offer the success-
22 ful bidder years of added experience that will enable this
23 unit operation to be a model field operation.

24 I find it strange that within this group of opposing com-
25 panies and included in the opposition are State Legislators
26 who are for some reason favoring postponement. They do not
27 realize that this giant field should not become a political
28 football, matching giant against giant and the outcome of
29 such fierce opposition will ultimately mean that the State,
30 the City of Long Beach, and most of all, the people of
31 California will be the only real losers.

The oil and gas in place belong to two groups of people.
The first group are the fortunate onshore royalty owners
and there are 10,000 of them, who are able to participate
in such a fair operating plan. Their interest in the unit
is small inasmuch as the onshore parcel has less oil than
the offshore parcel in the Long Beach unit. The second
group to benefit is the taxpayers of the State of California
and they number into the millions and it is the responsibil-
ity of the State Lands Commission to see that their inter-
ests are protected by an efficient unit operation. Any
other operation will automatically mean a loss of millions
of dollars of revenue to the State and out of the pockets
of the taxpayers.

It is significant to note that 90 percent of the oil in
place belongs to the State of California and to the City
of Long Beach. The opposition continues to mention that
this oil belongs to Standard of California, Richfield and
other companies that favor this unit agreement. This is as
far removed from the truth as any statement that could be
presented at any public gathering for misrepresentation.
This oil belongs to the people of California. Income from
this production will be divided between the State of Cali-
fornia and the City of Long Beach. I could safely estimate

1 "that over 85 percent of the oil reserves offshore, being
2 approximately one billion barrels, will be produced solely
3 for the benefit of this great State as well as for the
4 City of Long Beach, both being custodians for the people
5 of this State.

6 The winning bidder of this offshore unit is only the field
7 contractor who makes sure that the State and the City of
8 Long Beach's oil interests are protected by being properly
9 drilled, produced and marketed. All of the benefits of
10 good unit management will be passed on to benefit the people
11 of this State. Only a small fraction of this total amount
12 of oil in place, and I think the percentage will be between
13 ten and fifteen percent, will be rightfully earned by the
14 successful bidding combine. Poor, inefficient operation
15 automatically means losses of millions of dollars to the
16 people of California.

17 I wish to make one further statement about the opposing com-
18 bine's statement that they objected to the advance royalty
19 payments being paid by the successful bidder to the State
20 and to the City of Long Beach. I believe I can truthfully
21 state that most of these opposing companies have spent
22 more money, either alone or in joint operations, on foreign
23 shores for foreign oil than the advance bid requested on
24 Long Beach. In addition, the foreign operation of these
25 opposing companies has done far greater damage to the price
26 of our domestic crude here in California than the additional
27 production to be produced in Long Beach will ever accom-
28 plish. Even though they are aware that their foreign opera-
29 tions are greatly responsible for the depressing of domes-
30 tic crude prices, the opposition comes before this Commis-
31 sion to publicly state that to produce oil in the new Long
Beach unit by certain combines will seriously handicap the
future oil prices in this State and the nation.

Gentlemen, again I stand confused for I find it hard to
believe that companies supposedly with such large assets
as Texaco, Shell Oil Company, Pauley Petroleum Company
and their partners can misrepresent facts so broadly, con-
fusing an issue that is so vital to California and to the
millions of taxpayers of this great State.

I trust in the wisdom of this Commission to go forward with
the Long Beach Unit Agreement immediately so that the
benefits of this important operation will lessen the seri-
ous tax burdens that our State is facing.

In closing, I wish to offer the group that presents the
best bid my company's congratulations for I have no fear
that any combination of companies could not operate
efficiently, provided the One Unit Plan is adopted."

MR. MITCHELL: Thank you.

MR. CRANSTON: Thank you very much.

MR. CHAMPION: Mr. Mitchell, would you wait a minute,
because I think we can straighten out a few things.

1 I understand your impatience in this situation, but I
2 think in part there is some allusion about the role of this Com-
3 mission in considering this matter. We are not concerned as be-
4 tween bidding oil companies. You are quite right when you said
5 our concern is the major return to the people of the State of
6 California.

7 It is possible that the Long Beach plan as presented
8 is the best plan. It is, however, our obligation to listen to
9 any other proposals, to consider any other proposals. There has
10 been no political approach to me, and I doubt there has been to
11 any other member of this Commission. We are not concerned with
12 a political football here; we are concerned with a maximum re-
13 turn to the people of the State of California.

14 Now, there are two relationships involved in this.
15 One is our relationship to the City of Long Beach as operator
16 and the other is our relationship in attempting to get a proper
17 working operation so that we, as major beneficiary of this
18 trust, have the proper control over what we are going to benefit
19 from; and the other major concern is one we have already stated,
20 that method of leasing which produces the maximum public return.

21 Now, I happen to agree with you on the one-unit plan.
22 Anything else I have seen, I am not sympathetic to. There might
23 be additional evidence that might persuade me. There are, how-
24 ever, many ways to operate the one-unit plan and they ought to
25 be considered -- again, to get the greatest possible return.
26 While we want to make haste -- we do want the money as soon as
27 possible -- in the end we wish the greatest return, not the
28 fastest return.

29 If you feel in some way we are not representing the
30 true interests of the people of the State, I'd appreciate
31 further comment from you.

1 MR. MITCHELL: You know, I read about the bidding on
2 a contract of 20%, 30, 10, and so forth and so forth and the
3 companies bidding on a net profit on each portion. Say Rich-
4 field wanted to bid 30% at 85%; I may bid 5% on 90%. Then I
5 would be on Richfield's back because they are operating on 90%
6 and I want to produce on my 85% plan. "If they caint toe the
7 mark, they should get out." They don't belong. This business
8 is tough; we go busted week after week. You never hear an oil
9 man cry. This is the first time in my life I have heard major
10 oil companies cry because they are in competition. I think it
11 is an insult to the industry.

12 MR. CHAMPION: Anybody can say what they want before
13 us, though we may not agree with them, as we have listened to
14 you. My concern is that we be understood -- that we have the
15 right to examine these alternatives which you say will not pro-
16 duce the greatest returns. We may agree. We have a competent
17 staff to analyze this, and I think we should take whatever time
18 we need to examine the alternatives. It may prove you are
19 right, but we have the right to make sure you are right on
20 independent evidence.

21 MR. MITCHELL: I object, Mr. Champion, that here you
22 had it in September; it should have come up in December. Brown
23 wanted to get it postponed until he was in office, until Janu-
24 ary. This fellow O'Sullivan had it wrapped up -- he knew it
25 would be postponed; he went home. He knew there would be no
26 competition. I can't fight invisible shadows. I will fight
27 competition when I can see it face to face. I won't fight
28 telephone calls.

29 MR. CHAMPION: You are not fighting telephone calls,
30 but you are imputing motives -- and I don't think that is
31 proper testimony before this Commission.

1 MR. MITCHELL: Last meeting they were fighting like
2 hell; this week they haven't said a word. They knew the meet-
3 ing was going to be postponed. This thing here - - I postponed
4 a Washington trip because I believed in this hearing. Mr.
5 Pauley isn't here -- he is a nice guy; Shell has a vice presi-
6 dent -- there aint a one of them here. Where the hell are they?
7 I am lost. When I saw O'Sullivan walk out at eleven o'clock,
8 I knew I was dead. I made my approach and I am sorry I offended
9 you gentlemen because what I want to say to you -- I don't be-
10 lieve that something as big as this couldn't be produced
11 immediately.

12 MR. CRANSTON: Mr. Mitchell, I think you will grant
13 that something as big as this, with as much money involved, with
14 as many pages in the contract, deserves and merits serious study
15 by the members of this Commission. We were only given the en-
16 tire documentation one month ago. The staff was unable to
17 bring anything in to us until one month ago, and I think you
18 should recognize that the three of us want to be sure of what
19 we are doing, so that we act properly.

20 At the meeting a month ago we had comments that there
21 were serious things wrong with this contract. No member of
22 this Commission and I believe no member of the Legislature has
23 taken a general position that he is opposed to this contract
24 publicly; I don't know if anyone has said it privately. We
25 have to be certain we are acting properly.

26 You spent much of your time talking about monopoly.
27 We have a letter from the Antitrust Division of the United
28 States Department of Justice in which they say how we may find
29 out whether this contract is subject to the antitrust laws and
30 offer a significant suggestion to make sure there is proper
31 distribution. These are things we cannot ignore.

1 MR. MITCHELL: But I say even before you had the
2 hearing, he wanted to propose a bill for a two-year delay.

3 MR. CRANSTON: There is no bill for a two-year delay.

4 MR. MITCHELL: There was a discussion

5 MR. CHAMPION: I think your information is
6 fragmentary.

7 MR. MITCHELL: I have a paper right here from Willows
8 by this editor. It is disturbing to me because it is my indus-
9 try. I have never been faced with this type of thing. They
10 bid offshore parcels in Santa Barbara. I don't say "Give me
11 one block of Pauley's block because I am small." No; I wish
12 him luck -- I wish Shell luck. I wish....

13 MR. CRANSTON: Mr. Mitchell, the Lands Commission
14 wishes to act as quickly as we can, but I think we should wish
15 to be judged not by our speed, but by the soundness of our
16 action.

17 MR. MITCHELL: I hope so. I am with you.

18 MR. CRANSTON: Is there anyone else who wishes to
19 testify at this time? (No response) I presume there are others
20 who will wish to meet on some of the problems with Mr. Hortig
21 when the meeting we have discussed is set up, and you will all
22 be hearing from him in that regard.

23 MR. HORTIG: Mr. Chairman, to complete the record
24 today, and particularly with reference to the list of support-
25 ers and opponents of the proposed contract now before the Com-
26 mission, we have previously received and did have at the time
27 of the last meeting a telegram of support from Continental
28 Eastern Corporation, which was not previously noted on your
29 list.

30 MR. CRANSTON: At the next meeting of the Lands Com-
31 mission this presumably will again be on the agenda and we will

1 reserve whatever time is necessary for its consideration, al-
2 though I do not want to predict whether we will be able to act
3 at that time.

4 MR. HORTIG: Mr. Chairman, finally, the Lieutenant
5 Governor has asked that the record show explicitly that he has
6 asked for complete evaluation and industry and Long Beach testi-
7 mony at the appropriate time at the Commission's proceedings on
8 the following factors:

9 The first factor concerns a provision of sell-off of
10 12½% of production which has been suggested. First, there
11 should be a complete evaluation of the pricing bases for the
12 production to be sold; and, secondly, optimum bases for con-
13 tracts for this oil -- five years having been suggested.

14 The second factor to be considered is possible market
15 control as it could develop from contracts under consideration.

16 The third factor concerns the advantages and disad-
17 vantages of unitization of Tract 2, the Alamitos Beach State
18 Park, with Tract 1 now under consideration for development.

19 The fourth factor is evaluation of necessary specifi-
20 cations in any contract bid as to disclosure of production allo-
21 cation between joint bidders, and the desirability of retention
22 of control through approval for any future adjustments of such
23 allocations.

24 MR. CRANSTON: If that completes this item on the
25 agenda, we will now revert to the regular agenda.

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